

**Gabon: Second and Third Reviews Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of Performance Criterion—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon**

In the context of the second and third reviews under the Stand-By Arrangement for Gabon and its requests for a waiver of nonobservance of a performance criteria and modification of performance criterion, the following documents have been released and are included in this package:

- The staff report for the Second and Third Reviews Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on December 16, 2008, with the officials of Gabon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 17, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its March 4, 2009 discussion of the staff report that completed the review.
- A statement by the Executive Director for Gabon.

The documents listed below have been separately released.

Letter of Intent sent to the IMF by the authorities of Gabon\*

Memorandum of Economic and Financial Policies by the authorities of Gabon\*

Technical Memorandum of Understanding\*

\*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GABON

**Second and Third Reviews Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of Performance Criterion**

Prepared by the African Department  
(In consultation with other departments)

Approved by David Nellor and David Marston

February 17, 2009

- **Mission:** December 5–16 in Libreville. The team met with Prime Minister Eyeghé Ndong, Finance Minister Blaise Louembé, other senior officials, and representatives of the business and donor community.
- **Staff team:** Messrs. Wakeman-Linn (head), Srour, Iossifov (all AFR), Cherif (FAD), and Thiam (resident representative). Mr. Nguema Affane, advisor to the Executive Director, participated in the discussions.
- **Stand-By Arrangement (SBA):** The Executive Board approved a three-year SBA for SDR 77.15 million (50 percent of quota) on May 7, 2007, and completed the first review on December 19, 2007. The authorities are treating the SBA as precautionary.

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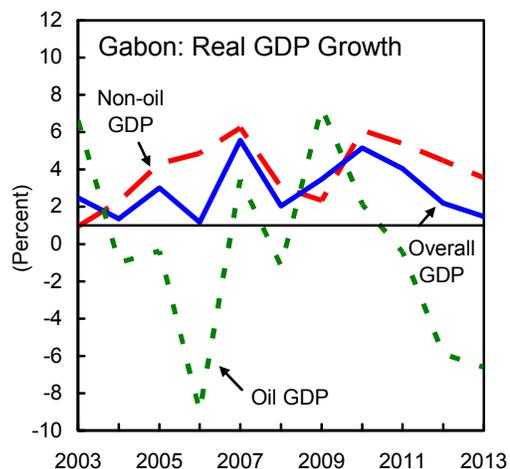
### EXECUTIVE SUMMARY

- Performance under the program has been mixed. Non-oil economic growth was robust prior to the onset of the international financial crisis, spurred by high oil and commodity prices. However, little progress has been made to bring the non-oil fiscal deficit to a sustainable position, as rising international oil prices increased fuel subsidies, and domestic tensions made it difficult to increase domestic fuel product prices as called for under the program.
- As a result, completion of the second review, which was originally scheduled in March 2008, has been repeatedly delayed. The recent sharp decline in oil prices provides a window of opportunity to eliminate fuel subsidies, a window the authorities are determined to exploit.
- The main objectives of the program for 2009 and the medium term are to reduce the non-oil primary deficit, improve public financial management and the quality of spending, and promote the non-oil private sector.
- The international crisis has underscored the need to diversify the economy. Efforts are especially needed to improve the business climate, build infrastructure, and deepen financial intermediation.
- The authorities addressed many of these concerns when they recently implemented an automatic fuel price adjustment mechanism, passed a 2009 budget consistent with the program's objectives, and developed contingency plans in event of further economic deterioration. On that basis, staff supports the authorities' request for waivers for nonobservance of the performance criteria and recommends completion of the second and third reviews.

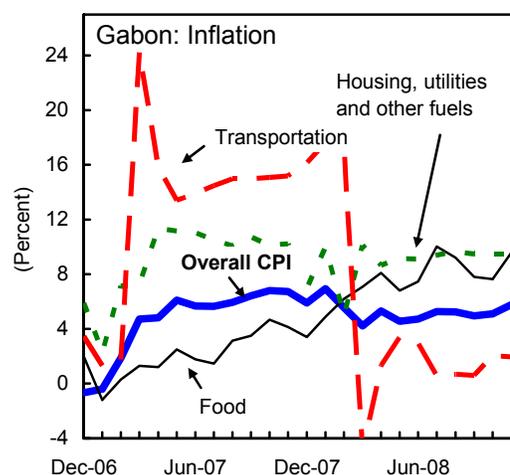
## I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

### 1. Economic performance in 2008 has been influenced by developments in international oil and commodity markets (Table 1):

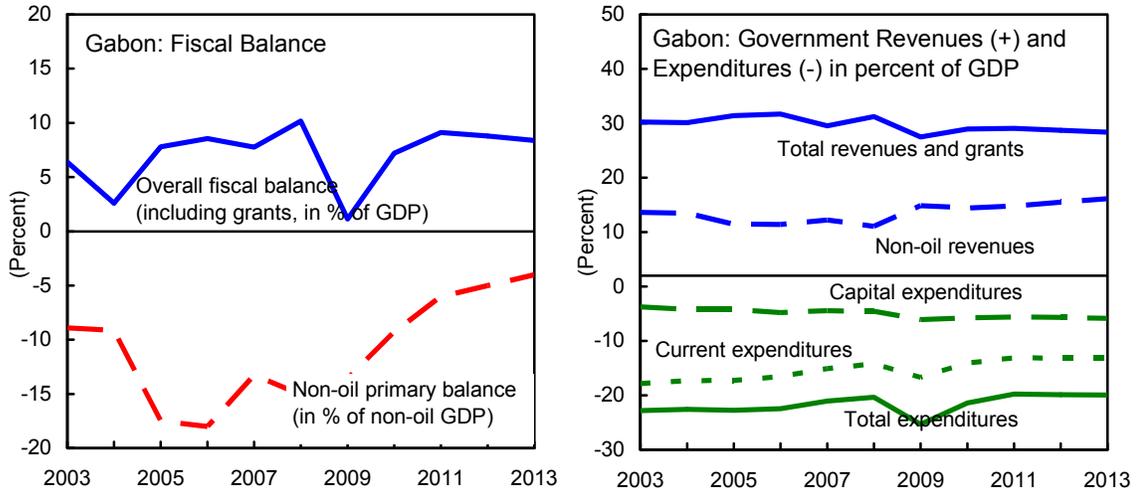
- GDP growth fell to 2 percent in 2008.** Non-oil growth was robust in the first half of 2008, spurred by high oil and commodity prices. It subsequently slowed as Gabon's three main industries—oil, timber, and manganese—were hard hit by the weakening global economy. Oil sector GDP declined 1.2 percent in 2008 due to a 2-week labor strike and delays in bringing marginal fields on-stream.



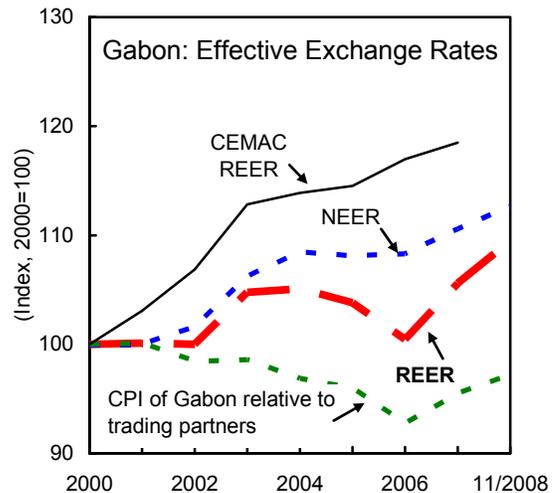
- After peaking at 6.9 percent in January, inflation fell to 5.6 percent at end-2008, with the continued high inflation in part reflecting high food prices.** In April 2008 the government suspended the import duties, value-added tax, and fees charged by public entities on key food products; capped profit margins on rice and flour; and increased subsidies on flour and rice, as well as on diesel for the fishing sector. The measures, which have been renewed, are estimated to cost 0.36 percent of non-oil GDP in 2008.



- Fiscal policy was tightened less than planned.** The non-oil primary deficit (NOPD) was an estimated 13.8 percent of non-oil GDP in 2008—down from 18 percent in 2006, but 3.8 percent above the program target. This was largely due to lower non-oil revenue, reflecting lower VAT and customs revenues, higher than planned fuel subsidies in the face of rising oil prices and the absence of adjustment to domestic fuel prices, and spending overruns related to local elections.



- **The regional central bank (BEAC) lowered interest rates on its credit and deposit facilities in December 2008 in response to the international financial crisis.** The international financial crisis and the resulting global recession have thus far had little impact on bank soundness, as Gabonese banks avoided counterparty-risk induced losses (Table 8).
- **The real effective exchange rate (REER) rose almost 9 percent over 2007–08,** as the US dollar weakened against the euro and inflation was higher than in trading partners. The recent strengthening of the dollar has reversed some of the earlier gains.



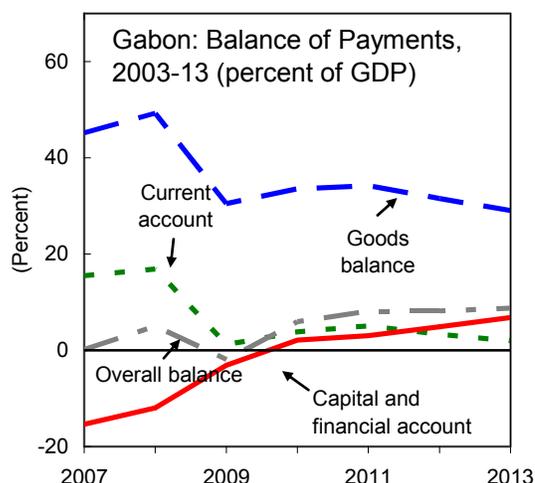
- Gabon's external position has been strong and the BOP in surplus.**  
 However, as a result of the larger NOPD and repayments of state-owned enterprise debts, the accumulation of public assets fell short of projections.

### Program performance

#### 2. Fiscal slippages and slow implementation of structural reforms delayed the completion of the second review (Letter of Intent (LOI), Tables 1-2).

The quantitative performance criteria (PC) on the NOPD for end-December 2007, end-March 2008 and end-June 2008; the quantitative PC on contracting new external debt for end-June 2008; and the structural PCs on adjustment of domestic fuel prices were all missed.<sup>1</sup> The PCs through June 2008 on the stock of net domestic bank credit to government<sup>2</sup> and on contracting and guaranteeing of new external debt were met. Also met were the PCs on (i) non-accumulation of new domestic and external arrears; (ii) the launch of the oil revenue model; and (iii) the application of budgetary procedures to outlays for the 2007 Independence Day celebrations. However, it has been determined that the introduction of a tax on certain transfers from Gabon, which is intended to finance the government's share of the health insurance for the poor, constitutes an exchange restriction, and thus violates the continuous PC against the imposition or intensification of exchange restrictions. The authorities intend to remove this exchange restriction by end-April 2009, through an amendment to the tax laws, and will consult with staff on this amendment.

3. Five of nine structural benchmarks were implemented with delay, and two are pending. The list of projects for the 2008 *Fêtes tournantes* was published only at end-June 2008. An audit report of the oil refinery, SOGARA, was not completed until August. The preparation of a comprehensive asset management strategy required the authorities to build capacity in this area, with the assistance of the World Bank. Work on sectoral medium-term expenditure framework (MTEF) frameworks continues, and monthly budget execution reports should be ready in the first quarter of 2009.



<sup>1</sup> The missed 2008 external debt target reflected delayed contracting of debts expected to be contracted in 2007; the total new external debt contracted in 2007 and 2008 met the program's objectives.

<sup>2</sup> The end-December 2007 PC was met as a result of the temporary depositing of the proceeds of a Eurobond in a Gabonese bank in December 2007, prior to the repayment of Paris Club creditors in January 2008.

## II. PROGRAM DISCUSSIONS

4. The main objectives of the program are to gradually reduce the NOPD to a sustainable position, improve public financial management (PFM) and the quality of spending, and promote the non-oil private sector.

### A. Macroeconomic Framework and Risks to the Outlook

5. **Gabon's economic outlook for 2009 has deteriorated markedly in the wake of the weakening global demand for commodities.** There are no indications yet that investment projects have been affected. In particular, investment in the oil sector is expected to increase oil production by 7.8 percent in 2009. However, growth in the non-oil sector was projected at the time of program discussions to dip to 2.3 percent as a result of the contraction in the mining and timber industries, bringing overall GDP growth to 3.5 percent. While developments since then indicate this figure may be optimistic, the authorities have planned contingency measures—as discussed below—to ensure potential slower growth does not lead to a larger fiscal deficit. Inflation should fall to 3.5 percent as the pace of food price increases tapers off and domestic demand slows.

6. **At current WEO forecasts, the fiscal and current account balances are expected to record surpluses, albeit substantially lower than in 2008.** At 40 USD, both the overall cash fiscal balance and balance of payment would be in deficit. The long-term sustainable NOPD is now estimated by staff at 3.3 percent of non-oil GDP, down from the program's initial assessment of 6 percent, reflecting lower future oil prices and the shortfall in public savings to date.

7. **The main risks to the projections are a more prolonged and severe global economic slowdown, and a slow fiscal adjustment to such an event.** Investment by mining and oil companies also risk being delayed, and rising social tensions may put pressure on the government to increase spending on wages and social benefits.

### B. The Budget in 2009 and the Medium Term

8. **Although the NOPD is clearly unsustainable, the economic slowdown dictates a gradual move to a sustainable NOPD, as aggressive fiscal tightening could lead to further contraction of the economy.** The 2009 budget aims for a NOPD of 11.8 percent of non-oil GDP, 2 percent lower than in 2008, but significantly higher than the previous target for 2009 (Table 4).<sup>3</sup> The 2009 target primarily reflects improved revenue collection, due to reduced tax exemptions, higher receipts from mobile phone operators, and a payment of manganese-related corporate income tax receipts from 2008 profits. Substantially lower fuel

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<sup>3</sup> The NOPD excludes capital transfers related to the assumption of debt from public enterprises undergoing privatization or restructuring.

subsidies and reductions in spending on goods and services will also contribute to the reduced NOPD, despite additional spending targeted at the most vulnerable (0.5 percent of non-oil GDP), a larger wage bill, and accelerated capital spending on priority projects (LOI paragraph 16). Conscious of the uncertain international environment, the authorities plan to delay full disbursement of budget allocations while identifying contingency cutbacks, should developments prove worse than currently forecast (LOI paragraph 22).

9. **Taking advantage of the current low global prices, the authorities have liberalized the prices of two oil products (fuel oil and bitumen) and adopted an automatic price adjustment mechanism for all other oil products effective January 2009, to ensure the reduction of oil product subsidies** (LOI paragraphs 17, 18). They also plan to eliminate the subsidy to the domestic refinery, SOGARA, over the medium term (LOI paragraph 19)

#### **Box 1. Response to the Global Economic Slowdown**

The authorities' response to the rapidly deteriorating global economic outlook, even as the 2009 budget was being finalized, was commendable in many respects:

- The underlying macroeconomic assumptions and the draft 2009 budget were revised repeatedly, in consultation with Fund staff, to take into account the latest changes in commodities markets.
- Fiscal policy was geared to mitigate the impact of the crisis through administrative measures to assist the hardest hit sectors and accelerated spending on priority projects, while measures were taken to enhance revenue.
- Additional social spending was offset mostly by cutting non-priority expenditure.
- Taking advantage of the drop in oil prices, an automatic fuel price adjustment mechanism was introduced to permanently reduce oil subsidies.

In addition, recognizing the potential for further economic deterioration, the authorities have decided to limit spending in the first half of 2009 to 33 percent of the annual budget, and instructed line ministries to identify potential expenditure cuts, should they be needed to contain the deficit.

10. **Notwithstanding the setback in 2009, the authorities remain committed to bringing the NOPD down to 6 percent by 2011, on their way to a sustainable NOPD.** However, achieving this target will require strict fiscal discipline. Besides the reduction of oil

subsidies, the baseline scenario requires significantly reduced spending on wages, goods and services, and transfers over the period 2010–11 (Table 4).

11. **External debt (15 percent of GDP at the end of 2008, Table 9) is sustainable based on current WEO commodity price forecasts.**<sup>4</sup> The buy-back in January 2008 of Paris Club debt (\$1.6 billion) at a discount, financed partially by the issuance of a Eurobond (\$1 billion) and a regional bond (CFA 81.5 billion), and the recent buy-back of modest amounts (\$54.4 millions) of Gabon’s Eurobond helped bring external debt down substantially. Nonetheless, the authorities recognize the need for a comprehensive debt and asset management strategy.

12. **Foreign-funded projects need to be carefully vetted to ensure they yield high returns and are consistent with PRSP priorities.** In particular, the fiscal and economic implications of the US\$5 billion joint venture with China on the Belinga project need to be carefully analyzed before the agreement is finalized.<sup>5</sup> Both the Gabonese and Chinese authorities have assured staff the project does not entail any new debt obligations for the government. It is unclear when final agreement on the project may be reached.

### C. Structural Fiscal Reforms

13. **The authorities are pressing ahead with comprehensive PFM reforms** (LOI paragraphs 22-25). Their priorities are to strengthen revenue administration and transparency, raise the quality and efficiency of public spending, and improve budget coverage and execution. Key elements of the reforms include the following:

- The reduction of specific tax exemptions and the establishment of a one-stop taxpayer’s office for small and medium-sized companies.
- Development of a sectoral MTEF reflecting PRSP priorities.
- Publishing the list of projects chosen for the 2009 Independence Day Celebration (*Fêtes tournantes*) with estimates of their cost by end-March 2009, and auditing government expenditures on the 2006, 2007, and 2008 *Fêtes tournantes*.
- Posting monthly budget execution reports on the web starting in 2009.
- Reducing further the share of single-source government contracts.

14. **The authorities have taken steps to avert contingent fiscal liabilities and quasi-fiscal activities.** In particular, progress was made to ensure adequate financing for the new

<sup>4</sup> See Appendix I for the long-term DSA.

<sup>5</sup> This project includes an iron ore mine, railway, deep-water port, and hydropower electricity station.

health insurance and social security system, and more realistic amounts were appropriated to cover public utility bills.

15. **Staff reached agreement with the authorities on measures to improve program execution,**<sup>6</sup> designed to improve the accuracy of measurement of net bank credit to the government and strengthen the incentives of the Treasury to monitor the financing operations arising from activities of the National Debt Office.

16. **The authorities have made significant progress in improving oil revenue administration.** The development of an oil revenue model has improved the estimation of oil receipts, and the publication of the 2006 EITI has improved transparency. EITI reports for 2007 and 2008 are expected to be issued in June and December 2009, respectively. The authorities are taking steps to reconcile differences in oil receipts reported in the model, the treasury, and other sources (e.g., EITI, reports to parliament). They will issue quarterly reports explaining these differences and continue publication of reports by the commission against illicit enrichment.

#### **D. Promoting the Private Sector**

17. **The government is accelerating its program to build infrastructure and promote diversification.** A National Diversification Commission has been created to oversee this program; CFAF 100 billion has been earmarked for investments selected by this Commission and included in the budget appropriations for capital spending.

18. **A 15 percent increase in tariffs was agreed with the electricity and water company (SEEG) to secure its commercial viability.** The mission urged the authorities to allow timely adjustment of tariffs to promote operations on a commercial basis. The government is elaborating a plan to implement the recommendations of the recent audit of SOGARA, to return the refinery to profitability. Staff urged the elimination of nontariff barriers and the import ban on sugar, while efforts to reduce the common external tariffs continue (LOI paragraph 36)..

19. **The delay in adoption of regional regulations has slowed the development of financial markets.** While the first regional government bond issue is traded on the Central Africa Securities Exchange (BVMAC), draft regional regulations provide for government bond markets to be organized by the BEAC. The temporary regulatory void has placed on hold CEMAC government bond issues. The success of the government bond market will depend on the liberalization of the prudential treatment of bank holdings of government bonds.

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<sup>6</sup> See the attached Technical Memorandum of Understanding, paragraph 8.

### III. PROGRAM MONITORING AND AMENDMENTS

20. **In the attached LOI, the authorities request waivers** for the nonobservance of the PC on fuel price adjustment, the continuous PCs on application of the automatic fuel price adjustment formula, and the imposition or intensification of exchange restrictions, and the PCs on the NOPD and the contracting of new external debt for end-June 2008. The letter also identifies quantitative performance criteria and indicative targets for 2009, and structural conditionality (LOI Tables 1, 2). A new price adjustment mechanism has been put in place effective January 1, 2009. The continuous structural performance criterion on fuel price adjustments has been modified accordingly (paragraph 19 of revised TMU). Other structural conditionality focuses on strengthening public financial management.

### IV. STAFF APPRAISAL

21. **Performance under the program has been mixed.** Economic growth was robust prior to the onset of the international financial crisis, and the government generated large fiscal surpluses. However, the accumulation of public assets fell short of projections due to lower non-oil revenue, higher than planned fuel subsidies, and spending overruns.

22. **The 2009 budget is consistent with program objectives.** It is designed to reduce the NOPD, contain subsidies, and increase investment allocations.

23. **Strict control of current spending over the medium term will be essential to achieve the program's objectives and create space for spending on priority projects.**

24. **The authorities are making progress on PFM reforms.** In particular, the development of an oil revenue model and ongoing efforts to reconcile differences in reported oil receipts are significantly improving transparency. More efforts are needed to improve the quality of investment and social spending.

25. **Against the background of depleting oil reserves, far-reaching reforms are needed to promote the private sector and diversify the economy.** Efforts are needed to improve the business climate, build infrastructure, and deepen financial intermediation. Staff welcomes the creation of the National Diversification Commission, and the stepped-up spending on priority projects. A prudent borrowing policy and comprehensive debt management strategy are essential to ensure optimal use of resources.

26. **Staff supports the request for waivers for nonobservance of performance criteria,** and recommends completion of the second and third SBA reviews. While there have been slippages, the adoption of the automatic fuel price adjustment formula is an important step forward, the authorities have taken steps to strengthen non-oil revenue, and key structural measures under the SBA have been implemented. The authorities are also taking steps to improve budget execution, control spending, and reduce the deficit in a difficult global economic environment. In addition, the decision to allocate to line ministries

only 33 percent of the annual budget total in the first half of 2009 provides an important cushion to ensure the fiscal targets for 2009 are met, even if economic conditions turn out worse than currently assumed. Finally, the authorities had no intention of introducing an exchange restriction, have been proactive in working with staff to resolve this problem, and intend to remove the exchange restriction by end-April 2009 through the forthcoming amendment to the budget law.

27. **Staff proposes that the remaining amount under the program be divided equally in four tranches** (with test dates of end-March, June, September and December 2009), and two additional reviews, based on performance through end-June and end-December (Table 16). The authorities are treating the SBA as precautionary. The risk to the Fund is low (Table 12), as total access under the SBA arrangement would be equivalent to SDR 77.15 million, or about 1 percent of 2009 GDP; the authorities have no intention to access even these modest sums, and external debt is projected to stay below 20 percent of GDP and is sustainable.

Table 1. Gabon: Selected Economic Indicators, 2006–11

|   | 2006   |          | 2007   |          | 2008  |       | 2009  | 2010  | 2011  |
|---|--------|----------|--------|----------|-------|-------|-------|-------|-------|
|   | Actual | CR 08/24 | Actual | CR 08/24 | Proj. | Prog. | Proj. |       |       |
| (Annual percent change, unless otherwise indicated)           |        |          |        |          |       |       |       |       |       |
| <b>Real sector</b>  |        |          |        |          |       |       |       |       |       |
| GDP at constant prices  | 1.2    |          | 5.6    | 5.6      | 4.2   | 2.0   | 3.5   | 5.1   | 4.0   |
| Oil   | -9.0   |          | 3.1    | 3.4      | 2.4   | -1.2  | 7.3   | 2.1   | -0.4  |
| Of which: oil extraction                                      | -10.4  |          | 2.1    | 1.7      | 2.5   | -2.7  | 7.8   | 1.4   | -1.5  |
| Non-oil   | 4.9    |          | 6.4    | 6.2      | 4.7   | 3.0   | 2.3   | 6.1   | 5.4   |
| GDP at current prices   | 9.2    |          | 6.8    | 11.1     | 9.3   | 16.6  | -21.9 | 13.8  | 7.8   |
| GDP deflator  | 7.9    |          | 1.1    | 5.2      | 4.9   | 14.2  | -24.6 | 8.2   | 3.6   |
| Oil   | 19.3   |          | -1.3   | 4.1      | 8.2   | 22.0  | -46.1 | 19.8  | 6.7   |
| Non-oil   | 4.8    |          | 5.4    | 8.0      | 3.0   | 9.3   | -2.6  | 2.3   | 3.4   |
| <b>Consumer prices</b>  |        |          |        |          |       |       |       |       |       |
| Yearly average  | -1.4   |          | 4.4    | 5.0      | 3.0   | 5.3   | 3.5   | 3.0   | 3.0   |
| End of period   | -0.7   |          | 4.0    | 5.9      | 2.7   | 5.6   | 3.2   | 3.0   | 3.0   |
| <b>External sector</b>  |        |          |        |          |       |       |       |       |       |
| Exports, f.o.b. (CFA francs)                                  | 4.8    |          | 3.5    | 11.1     | 10.8  | 23.6  | -40.7 | 19.3  | 8.3   |
| Of which: oil   | 4.6    |          | 1.6    | 7.0      | 11.3  | 20.1  | -42.6 | 22.1  | 5.7   |
| Imports, f.o.b. (CFA francs)                                  | 11.8   |          | 18.7   | 6.2      | 1.8   | 13.4  | -6.0  | 9.6   | 6.5   |
| Export volume   | -10.4  |          | 3.8    | 4.3      | 3.1   | -1.2  | 4.8   | 3.2   | 1.3   |
| Import volume   | 3.7    |          | 18.2   | 4.9      | 5.5   | 6.9   | -3.1  | 3.5   | 3.8   |
| Terms of trade (deterioration = -)                            | 8.5    |          | -0.8   | 5.2      | 11.4  | 18.1  | -41.6 | 9.2   | 4.2   |
| Nominal effective exchange rate (depreciation = -)            | 0.2    |          | ...    | 2.1      | ...   | 1.9   | ...   | ...   | ...   |
| Real effective exchange rate (depreciation = -) <sup>1</sup>  | -3.2   |          | ...    | 5.1      | ...   | 3.7   | ...   | ...   | ...   |
| <b>Central government finance</b>                             |        |          |        |          |       |       |       |       |       |
| Total revenue   | 10.3   |          | 6.5    | 3.4      | 7.3   | 23.3  | -31.3 | 19.8  | 8.2   |
| Oil revenue   | 11.7   |          | -0.7   | -5.4     | 7.0   | 35.3  | -51.2 | 30.8  | 6.0   |
| Non-oil revenue   | 8.5    |          | 19.2   | 19.0     | 7.7   | 5.4   | 5.0   | 10.6  | 10.5  |
| Total expenditure   | 7.8    |          | -1.1   | 3.9      | 1.4   | 12.7  | -2.9  | -3.7  | -0.5  |
| Current   | 4.8    |          | -1.4   | 1.2      | -3.3  | 9.5   | -8.0  | -4.1  | 0.3   |
| Capital   | 23.5   |          | -3.4   | 3.3      | 18.9  | 19.5  | 3.8   | 9.1   | 4.1   |
| <b>Money and credit</b>                                       |        |          |        |          |       |       |       |       |       |
| Credit to the economy   | 21.3   |          | 20.8   | 17.5     | 13.5  | 1.1   | 1.9   | 10.2  | 10.7  |
| Broad money   | 17.4   |          | 12.2   | 7.2      | 10.3  | 12.2  | 0.0   | 10.6  | 8.9   |
| Velocity of broad money (relative to non-oil GDP)             | 2.6    |          | 2.6    | 2.6      | 2.5   | 2.7   | 2.7   | 2.6   | 2.6   |
| (Percent of GDP, unless otherwise indicated)                  |        |          |        |          |       |       |       |       |       |
| Gross national savings  | 37.4   |          | ...    | 40.5     | 39.9  | 41.1  | 32.1  | 34.4  | 35.8  |
| Government  | 15.1   |          | ...    | 14.4     | 17.5  | 16.9  | 10.7  | 14.8  | 15.9  |
| Private sector  | 22.3   |          | ...    | 26.1     | 22.5  | 24.2  | 21.4  | 19.6  | 19.9  |
| Gross fixed investment  | 24.8   |          | ...    | 25.0     | 23.8  | 24.2  | 30.8  | 30.5  | 30.7  |
| Government  | 4.8    |          | ...    | 4.5      | 4.7   | 4.6   | 6.1   | 5.8   | 5.6   |
| Private sector  | 20.0   |          | ...    | 20.5     | 19.1  | 19.7  | 24.7  | 24.7  | 25.1  |
| <b>Central government</b>                                     |        |          |        |          |       |       |       |       |       |
| Non-oil primary balance (percent of non-oil GDP) <sup>2</sup> | -18.0  |          | -11.5  | -13.3    | -10.0 | -13.8 | -11.8 | -8.6  | -6.0  |
| Overall balance (cash basis)                                  | 8.6    |          | 10.4   | 7.8      | 11.4  | 10.2  | 1.1   | 7.2   | 9.1   |
| Domestic bank financing                                       | -1.9   |          | -3.0   | -8.1     | -6.3  | 3.4   | 1.5   | -5.8  | -7.7  |
| Net external financing  | -3.4   |          | -3.7   | 4.4      | -3.2  | -13.2 | -0.8  | -0.3  | -0.4  |
| External current account balance (with official transfers)    | 12.6   |          | 13.3   | 15.5     | 16.1  | 16.9  | 1.3   | 3.9   | 5.1   |
| External public debt (including to the Fund)                  | 32.5   |          | 26.5   | 34.9     | 20.9  | 14.6  | 18.0  | 15.5  | 13.9  |
| Total gross public debt                                       | 42.0   |          | 35.1   | 43.2     | 26.6  | 19.6  | 22.9  | 18.6  | 15.8  |
| (CFA francs billion, unless otherwise indicated)              |        |          |        |          |       |       |       |       |       |
| <b>Memorandum items</b>                                       |        |          |        |          |       |       |       |       |       |
| Nominal GDP   | 4,992  |          | 5,333  | 5,544    | 5,828 | 6,462 | 5,044 | 5,740 | 6,190 |
| Nominal non-oil GDP   | 2,421  |          | 2,717  | 2,777    | 2,931 | 3,126 | 3,115 | 3,379 | 3,682 |
| National oil price (thousand CFA francs per barrel)           | 31.5   |          | 31.4   | 33.3     | 33.9  | 41.4  | 21.9  | 26.5  | 28.6  |

Source: Gabonese authorities, and IMF staff estimates and projections.

Notes: Country Report 08/24 is the Board document for the first review under the SBA issued in Jan. 2008.

<sup>1</sup> Based on the new Harmonized Consumer Price Index with weights derived from Gabon's 2005 household expenditure survey.

<sup>2</sup> Excluding oil revenue, restructuring costs, and, since 2008, capital transfers related to assumption of debt from public enterprises undergoing privatization or restructuring. Prior to 2008, government assumption of debt from public enterprises was not recorded in the budget.

Calculated on a payments order basis.

**Table 2. Gabon: Summary of Real Sector Developments, 2007–11**

|  | 2007   | 2008  | 2009        | 2010  | 2011  |
|--|--|-------|-------------|-------|-------|
|  | Est.   |       | Projections |       |       |
| <b>Real GDP by sector of origin</b>    |  |       |             |       |       |
|  | (Billions of CFA francs at constant 1991 prices)   |       |             |       |       |
| GDP at market prices                   | 1,971  | 2,011 | 2,081       | 2,188 | 2,277 |
| <i>of which:</i> Non-oil GDP           | 1,507  | 1,553 | 1,589       | 1,686 | 1,777 |
| Import duties and VAT                  | 102  | 98    | 96          | 104   | 114   |
| GDP at factor cost                     | 1,869  | 1,914 | 1,985       | 2,084 | 2,163 |
| <i>of which:</i> Non-oil GDP           | 1,405  | 1,455 | 1,493       | 1,582 | 1,663 |
| Primary sector                         | 579  | 568   | 591         | 618   | 632   |
| Non-oil                                | 204  | 203   | 199         | 219   | 240   |
| Oil                                    | 375  | 364   | 393         | 398   | 392   |
| Secondary sector                       | 362  | 376   | 391         | 415   | 435   |
| Tertiary sector                        | 928  | 970   | 1,003       | 1,051 | 1,097 |
|  | (Annual percentage change in constant 1991 prices) |       |             |       |       |
| GDP at market prices                   | 5.6  | 2.0   | 3.5         | 5.1   | 4.0   |
| <i>of which:</i> Non-oil GDP           | 6.2  | 3.0   | 2.3         | 6.1   | 5.4   |
| Import duties and VAT                  | 9.1  | -4.7  | -1.9        | 9.0   | 8.7   |
| GDP at factor cost                     | 5.4  | 2.4   | 3.7         | 5.0   | 3.8   |
| <i>of which:</i> Non-oil GDP           | 6.0  | 3.6   | 2.6         | 5.9   | 5.2   |
| Primary sector                         | 3.4  | -1.9  | 4.2         | 4.5   | 2.3   |
| Non-oil                                | 6.6  | -0.3  | -2.3        | 10.5  | 9.2   |
| Oil                                    | 1.7  | -2.7  | 7.8         | 1.4   | -1.5  |
| Secondary sector                       | 6.1  | 3.7   | 4.1         | 6.1   | 4.7   |
| Tertiary sector                        | 6.4  | 4.6   | 3.4         | 4.8   | 4.4   |
| <b>Nominal GDP by sector of origin</b> |  |       |             |       |       |
|  | (Billions of CFA francs)                           |       |             |       |       |
| GDP at market prices                   | 5544   | 6462  | 5044        | 5740  | 6190  |
| <i>of which:</i> Non-oil GDP           | 2777   | 3126  | 3115        | 3379  | 3682  |
|  | (Percent of nominal GDP)                           |       |             |       |       |
| GDP at market prices                   | 100  | 100   | 100         | 100   | 100   |
| <i>of which:</i> Non-oil GDP           | 50   | 48    | 62          | 59    | 59    |
| Import duties and VAT                  | 6  | 5     | 7           | 7     | 7     |
| Primary sector                         | 57   | 60    | 47          | 49    | 49    |
| Non-oil                                | 8  | 10    | 10          | 9     | 10    |
| Oil                                    | 49   | 51    | 37          | 40    | 39    |
| Secondary sector                       | 8  | 8     | 10          | 10    | 10    |
| Tertiary sector                        | 29   | 27    | 36          | 34    | 34    |
| <b>Nominal GDP by use of resources</b> |  |       |             |       |       |
|  | (Billions of CFA francs at current prices)         |       |             |       |       |
| GDP at market prices                   | 5544   | 6462  | 5044        | 5740  | 6190  |
| Net factor income from abroad          | -731   | -1002 | -578        | -676  | -703  |
| Gross national product                 | 4813   | 5461  | 4467        | 5064  | 5487  |
| Gross disposable income                | 4676   | 5306  | 4348        | 4928  | 5340  |
| Saving-investment balance              | 860  | 1091  | 63          | 221   | 318   |
| National saving                        | 2246   | 2657  | 1617        | 1974  | 2216  |
| Gross capital formation                | 1386   | 1566  | 1554        | 1753  | 1898  |
| External current account               | 860  | 1091  | 63          | 221   | 318   |
|  | (Percent of nominal GDP)                           |       |             |       |       |
| GDP at market prices                   | 100  | 100   | 100         | 100   | 100   |
| Net factor income from abroad          | -13  | -15   | -11         | -12   | -11   |
| Gross national product                 | 87   | 85    | 89          | 88    | 89    |
| Gross disposable income                | 84   | 82    | 86          | 86    | 86    |
| Saving-investment balance              | 16   | 17    | 1           | 4     | 5     |
| National saving                        | 41   | 41    | 32          | 34    | 36    |
| Gross capital formation                | 25   | 24    | 31          | 31    | 31    |
| External current account               | 16   | 17    | 1           | 4     | 5     |

Source: Gabonese authorities, and IMF staff estimates and projections.

**Table 3. Gabon: Central Government Accounts, 2007–11**  
(Billion of CFA francs unless otherwise indicated)

|  | 2007   | 2008                  |         | 2009   |        |        | 2010   | 2011   |        |
|--|--------|-----------------------|---------|--------|--------|--------|--------|--------|--------|
|  | Dec.   | Dec.                  |         | Mar.   | Jun.   | Sep.   | Dec.   | Dec.   |        |
|  | Actual | CR 08/24 <sup>1</sup> | Proj.   | Prog.  | Proj.  | Proj.  | Proj.  | Proj.  |        |
| Total revenue and grants   | 1636.5 | 1812.9                | 2017.0  | 328.8  | 686.9  | 1009.2 | 1386.6 | 1661.1 | 1797.4 |
| Revenue  | 1636.3 | 1806.9                | 2011.0  | 327.8  | 684.9  | 1006.2 | 1382.6 | 1657.1 | 1793.4 |
| Oil revenue  | 958.5  | 1075.7                | 1296.7  | 155.1  | 305.4  | 457.9  | 632.4  | 827.4  | 876.9  |
| Non-oil revenue  | 677.8  | 731.2                 | 714.3   | 172.7  | 379.5  | 548.3  | 750.3  | 829.7  | 916.5  |
| Tax revenue  | 605.7  | 653.0                 | 641.6   | 155.6  | 342.4  | 487.9  | 672.9  | 746.2  | 828.5  |
| Taxes on income, profits, and capital gains                      | 193.5  | 219.7                 | 232.7   | 63.0   | 147.5  | 189.9  | 256.0  | 282.9  | 309.9  |
| Domestic taxes on goods and services                             | 130.3  | 133.6                 | 133.4   | 33.1   | 71.3   | 103.2  | 145.7  | 158.4  | 176.4  |
| Value-added tax  | 92.4   | 94.2                  | 86.0    | 22.7   | 43.4   | 62.7   | 87.0   | 101.4  | 115.5  |
| Other  | 37.8   | 39.4                  | 47.3    | 10.4   | 27.9   | 40.5   | 58.7   | 57.0   | 60.9   |
| Taxes on international trade and transactions                    | 281.9  | 299.7                 | 275.5   | 59.6   | 123.6  | 194.8  | 271.2  | 304.9  | 342.2  |
| Other non-oil revenue  | 72.1   | 78.2                  | 72.7    | 18.0   | 37.1   | 60.5   | 77.4   | 83.5   | 88.0   |
| Grants   | 0.2    | 6.0                   | 6.0     | 1.0    | 2.0    | 3.0    | 4.0    | 4.0    | 4.0    |
| Total expenditure and net lending                                | 1165.6 | 1125.3                | 1313.8  | 292.6  | 612.1  | 917.5  | 1276.4 | 1229.7 | 1223.7 |
| Current expenditure  | 837.8  | 789.1                 | 917.0   | 183.8  | 392.7  | 590.8  | 843.5  | 808.6  | 810.9  |
| Wages and salaries   | 301.8  | 311.8                 | 320.8   | 90.1   | 178.9  | 271.4  | 370.0  | 371.1  | 357.7  |
| Goods and services   | 190.4  | 182.7                 | 205.3   | 38.9   | 89.5   | 137.7  | 191.5  | 199.3  | 222.0  |
| Interest payments  | 118.8  | 95.5                  | 122.8   | 11.4   | 38.9   | 50.6   | 98.8   | 81.9   | 80.9   |
| Domestic   | 26.6   | 17.8                  | 22.8    | 1.8    | 3.5    | 5.3    | 12.3   | 10.4   | 9.4    |
| Foreign  | 92.2   | 77.7                  | 100.0   | 9.6    | 35.3   | 45.3   | 86.6   | 71.5   | 71.5   |
| Transfers and subsidies  | 226.8  | 199.1                 | 268.1   | 43.5   | 85.4   | 131.1  | 183.2  | 156.3  | 150.3  |
| Transfers  | 149.9  | 128.7                 | 157.6   | 34.2   | 67.8   | 102.9  | 139.8  | 133.3  | 145.3  |
| Subsidies  | 77.0   | 70.4                  | 110.5   | 9.3    | 17.6   | 28.2   | 43.4   | 23.0   | 5.0    |
| Fuel subsidies   | 54.4   | 51.5                  | 85.9    | 5.3    | 10.0   | 16.1   | 26.7   | 20.0   | 5.0    |
| Other subsidies  | 22.6   | 18.9                  | 24.6    | 4.0    | 7.6    | 12.1   | 16.7   | 3.0    | 0.0    |
| Capital expenditure  | 246.8  | 274.4                 | 295.0   | 92.7   | 185.3  | 278.0  | 306.1  | 333.9  | 347.6  |
| Domestically financed  | 198.6  | 206.4                 | 244.1   | 58.9   | 117.8  | 176.6  | 235.5  | 248.2  | 254.2  |
| Foreign financed   | 48.2   | 68.0                  | 50.9    | 17.7   | 35.4   | 53.1   | 70.6   | 85.7   | 93.4   |
| Net lending  | 9.7    | 0.0                   | -7.0    | -0.7   | -1.4   | -2.0   | -2.7   | 0.0    | 0.0    |
| Road Fund (FER) and special funds                                | 71.3   | 61.9                  | 70.1    | 16.8   | 35.5   | 50.8   | 65.1   | 65.1   | 65.1   |
| Capital grants   | ...    | ...                   | 0.0     | 2.2    | 4.4    | 6.5    | 8.7    | 0.0    | 0.0    |
| Capital transfers  | ...    | ...                   | 38.7    | 13.9   | 27.8   | 41.7   | 55.7   | 22.1   | 0.0    |
| Overall balance  | 470.9  | 687.6                 | 703.2   | 36.2   | 74.8   | 91.7   | 110.3  | 431.3  | 573.7  |
| Total financing  | -470.9 | -687.6                | -703.2  | -36.2  | -74.8  | -91.7  | -110.3 | -431.3 | -573.7 |
| Change in arrears  | -40.2  | -26.0                 | -46.8   | -51.5  | -63.5  | -56.6  | -52.9  | -17.6  | -10.0  |
| Domestic arrears payments  | -39.9  | -26.0                 | -46.8   | -51.5  | -63.5  | -56.6  | -52.9  | -17.6  | -10.0  |
| External arrears (interest only)                                 | -0.2   | 0.0                   | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Foreign borrowing (net)  | 243.7  | -189.4                | -850.7  | -14.7  | -20.6  | -37.7  | -41.8  | -19.8  | -25.4  |
| Drawings   | 48.2   | 68.0                  | 50.9    | 17.7   | 35.4   | 53.1   | 70.6   | 85.7   | 93.4   |
| Program financing  | 0.0    | 0.0                   | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Project loans  | 48.2   | 68.0                  | 50.9    | 17.7   | 35.4   | 53.1   | 70.6   | 85.7   | 93.4   |
| Amortization   | -252.1 | -257.4                | -1033.9 | -32.4  | -55.9  | -90.8  | -112.4 | -105.5 | -118.7 |
| Exceptional financing  | 2.4    | 0.0                   | 132.3   | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Domestic borrowing (net)   | -688.3 | -472.2                | 194.3   | 30.1   | 9.3    | 2.6    | -15.5  | -393.9 | -538.3 |
| Banking system   | -451.4 | -369.6                | 221.6   | 70.3   | 67.3   | 78.5   | 77.4   | -334.4 | -474.5 |
| Monetary authorities   | 30.2   | -322.9                | -186.2  | 20.1   | 40.3   | 60.4   | 80.6   | -327.5 | -468.0 |
| Deposit money banks  | -481.7 | -37.0                 | 407.7   | 50.2   | 27.0   | 18.1   | -3.2   | -6.9   | -6.5   |
| Non-bank sector  | -236.9 | -102.5                | -27.2   | -40.3  | -58.0  | -75.9  | -92.9  | -59.5  | -63.8  |
| Financing gap  | 0.0    | 0.0                   | 0.0     | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| <i>Memorandum item:</i>  |        |                       |         |        |        |        |        |        |        |
| Non-oil primary balance excluding capital transfers <sup>2</sup> | -368.8 | -292.6                | -432.0  | -93.6  | -163.9 | -273.9 | -367.6 | -292.0 | -222.3 |
| as percent of non-oil GDP  | -13.3  | -10.0                 | -13.8   | -3.0   | -5.3   | -8.8   | -11.8  | -8.6   | -6.0   |
| Non-oil GDP at market prices                                     | 2776.6 | 2931.5                | 3126.3  | 3115.0 | 3115.0 | 3115.0 | 3115.0 | 3379.4 | 3681.6 |

Source: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Country Report 08/24 is the Board document for the first review under the SBA issued in Jan. 2008.

<sup>2</sup> Excluding oil revenue, restructuring costs, and, since 2008, capital transfers related to assumption of debt from public enterprises undergoing privatization or restructuring. Prior to 2008, government assumption of debt from public enterprises was not recorded in the budget. Calculated on a payments order basis.

**Table 4. Gabon: Central Government Accounts, 2007–11**  
(Percent of non-oil GDP )

|  | 2007   |                       | 2008  |       | 2009  |       |       | 2010  | 2011  |
|--|--------|-----------------------|-------|-------|-------|-------|-------|-------|-------|
|  | Dec.   | Dec.                  | Dec.  | Dec.  | Mar.  | Jun.  | Sep.  | Dec.  | Dec.  |
|  | Actual | CR 08/24 <sup>1</sup> | Proj. | Proj. | Prog. | Proj. | Proj. | Proj. | Proj. |
| Total revenue and grants   | 58.9   | 61.8                  | 64.5  | 10.6  | 22.1  | 32.4  | 44.5  | 49.2  | 48.8  |
| Revenue  | 58.9   | 61.6                  | 64.3  | 10.5  | 22.0  | 32.3  | 44.4  | 49.0  | 48.7  |
| Oil revenue  | 34.5   | 36.7                  | 41.5  | 5.0   | 9.8   | 14.7  | 20.3  | 24.5  | 23.8  |
| Non-oil revenue  | 24.4   | 24.9                  | 22.8  | 5.5   | 12.2  | 17.6  | 24.1  | 24.6  | 24.9  |
| Tax revenue  | 21.8   | 22.3                  | 20.5  | 5.0   | 11.0  | 15.7  | 21.6  | 22.1  | 22.5  |
| Taxes on income, profits, and capital gains                      | 7.0    | 7.5                   | 7.4   | 2.0   | 4.7   | 6.1   | 8.2   | 8.4   | 8.4   |
| Domestic taxes on goods and services                             | 4.7    | 4.6                   | 4.3   | 1.1   | 2.3   | 3.3   | 4.7   | 4.7   | 4.8   |
| Value-added tax  | 3.3    | 3.2                   | 2.8   | 0.7   | 1.4   | 2.0   | 2.8   | 3.0   | 3.1   |
| Other  | 1.4    | 1.3                   | 1.5   | 0.3   | 0.9   | 1.3   | 1.9   | 1.7   | 1.7   |
| Taxes on international trade and transactions                    | 10.2   | 10.2                  | 8.8   | 1.9   | 4.0   | 6.3   | 8.7   | 9.0   | 9.3   |
| Other non-oil revenue  | 2.6    | 2.7                   | 2.3   | 0.6   | 1.2   | 1.9   | 2.5   | 2.5   | 2.4   |
| Grants   | 0.0    | 0.2                   | 0.2   | 0.0   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |
| Total expenditure and net lending                                | 42.0   | 38.4                  | 42.0  | 9.4   | 19.7  | 29.5  | 41.0  | 36.4  | 33.2  |
| Current expenditure  | 30.2   | 26.9                  | 29.3  | 5.9   | 12.6  | 19.0  | 27.1  | 23.9  | 22.0  |
| Wages and salaries   | 10.9   | 10.6                  | 10.3  | 2.9   | 5.7   | 8.7   | 11.9  | 11.0  | 9.7   |
| Goods and services   | 6.9    | 6.2                   | 6.6   | 1.2   | 2.9   | 4.4   | 6.1   | 5.9   | 6.0   |
| Interest payments  | 4.3    | 3.3                   | 3.9   | 0.4   | 1.2   | 1.6   | 3.2   | 2.4   | 2.2   |
| Domestic   | 1.0    | 0.6                   | 0.7   | 0.1   | 0.1   | 0.2   | 0.4   | 0.3   | 0.3   |
| Foreign  | 3.3    | 2.7                   | 3.2   | 0.3   | 1.1   | 1.5   | 2.8   | 2.1   | 1.9   |
| Transfers and subsidies  | 8.2    | 6.8                   | 8.6   | 1.4   | 2.7   | 4.2   | 5.9   | 4.6   | 4.1   |
| Transfers  | 5.4    | 4.4                   | 5.0   | 1.1   | 2.2   | 3.3   | 4.5   | 3.9   | 3.9   |
| Subsidies  | 2.8    | 2.4                   | 3.5   | 0.3   | 0.6   | 0.9   | 1.4   | 0.7   | 0.1   |
| Fuel subsidies   | 2.0    | 1.8                   | 2.7   | 0.2   | 0.3   | 0.5   | 0.9   | 0.6   | 0.1   |
| Other subsidies  | 0.8    | 0.6                   | 0.8   | 0.1   | 0.2   | 0.4   | 0.5   | 0.1   | 0.0   |
| Capital expenditure  | 8.9    | 9.4                   | 9.4   | 3.0   | 5.9   | 8.9   | 9.8   | 9.9   | 9.4   |
| Domestically financed  | 7.2    | 7.0                   | 7.8   | 1.9   | 3.8   | 5.7   | 7.6   | 7.3   | 6.9   |
| Foreign financed   | 1.7    | 2.3                   | 1.6   | 0.6   | 1.1   | 1.7   | 2.3   | 2.5   | 2.5   |
| Net lending  | 0.3    | 0.0                   | -0.2  | 0.0   | 0.0   | -0.1  | -0.1  | 0.0   | 0.0   |
| Road Fund (FER) and special funds                                | 2.6    | 2.1                   | 2.2   | 0.5   | 1.1   | 1.6   | 2.1   | 1.9   | 1.8   |
| Capital grants   | ...    | ...                   | 0.0   | 0.1   | 0.1   | 0.2   | 0.3   | 0.0   | 0.0   |
| Capital transfers  | ...    | ...                   | 1.2   | 0.4   | 0.9   | 1.3   | 1.8   | 0.7   | 0.0   |
| Overall balance  | 17.0   | 23.5                  | 22.5  | 1.2   | 2.4   | 2.9   | 3.5   | 12.8  | 15.6  |
| Total financing  | -17.0  | -23.5                 | -22.5 | -1.2  | -2.4  | -2.9  | -3.5  | -12.8 | -15.6 |
| Change in arrears  | -1.4   | -0.9                  | -1.5  | -1.7  | -2.0  | -1.8  | -1.7  | -0.5  | -0.3  |
| Domestic arrears payments  | -1.4   | -0.9                  | -1.5  | -1.7  | -2.0  | -1.8  | -1.7  | -0.5  | -0.3  |
| External arrears (interest only)                                 | 0.0    | 0.0                   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Foreign borrowing (net)  | 8.8    | -6.5                  | -27.2 | -0.5  | -0.7  | -1.2  | -1.3  | -0.6  | -0.7  |
| Drawings   | 1.7    | 2.3                   | 1.6   | 0.6   | 1.1   | 1.7   | 2.3   | 2.5   | 2.5   |
| Amortization   | -9.1   | -8.8                  | -33.1 | -1.0  | -1.8  | -2.9  | -3.6  | -3.1  | -3.2  |
| Exceptional financing  | 0.1    | 0.0                   | 4.2   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| Domestic borrowing (net)   | -24.8  | -16.1                 | 6.2   | 1.0   | 0.3   | 0.1   | -0.5  | -11.7 | -14.6 |
| Banking system   | -16.3  | -12.6                 | 7.1   | 2.3   | 2.2   | 2.5   | 2.5   | -9.9  | -12.9 |
| Monetary authorities   | 1.1    | -11.0                 | -6.0  | 0.6   | 1.3   | 1.9   | 2.6   | -9.7  | -12.7 |
| Deposit money banks  | -17.3  | -1.3                  | 13.0  | 1.6   | 0.9   | 0.6   | -0.1  | -0.2  | -0.2  |
| Non-bank sector  | -8.5   | -3.5                  | -0.9  | -1.3  | -1.9  | -2.4  | -3.0  | -1.8  | -1.7  |
| Financing gap  | 0.0    | 0.0                   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |
| <i>Memorandum item:</i>  |        |                       |       |       |       |       |       |       |       |
| Non-oil primary balance excluding capital transfers <sup>2</sup> | -13.3  | -10.0                 | -13.8 | -3.0  | -5.3  | -8.8  | -11.8 | -8.6  | -6.0  |

Source: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Country Report 08/24 is the Board document for the first review under the SBA issued in Jan. 2008.

<sup>2</sup> Excluding oil revenue, restructuring costs, and, since 2008, capital transfers related to assumption of debt from public enterprises undergoing privatization or restructuring. Prior to 2008, government assumption of debt from public enterprises was not recorded in the budget. Calculated on a payments order basis.



Table 6. Gabon: Monetary Survey, 2007–09

|   | 2007           | 2008   |        |        |               | 2009   |        |        |        |
|---|----------------|--------|--------|--------|---------------|--------|--------|--------|--------|
|   | Dec.<br>Actual | Mar.   | Jun.   | Sep.   | Dec.<br>Proj. | Mar.   | Jun.   | Sep.   | Dec.   |
| (Billions of CFA francs, end of period)                                 |                |        |        |        |               |        |        |        |        |
| Net foreign assets <sup>1</sup>   | 1117.1         | 601.1  | 713.3  | 951.5  | 1063.3        | 1013.4 | 989.9  | 992.1  | 961.9  |
| Net domestic assets   | -69.3          | 465.1  | 349.5  | 192.3  | 112.0         | 165.1  | 181.2  | 193.0  | 213.6  |
| Domestic credit   | 72.2           | 601.9  | 519.0  | 408.7  | 297.1         | 364.7  | 381.1  | 382.9  | 386.1  |
| Claims on general government (net)                                      | -523.0         | 30.9   | -89.7  | -176.1 | -304.8        | -231.9 | -237.0 | -226.1 | -227.4 |
| Claims on central government (net) <sup>1</sup>                         | -491.0         | 73.6   | -59.0  | -146.1 | -270.0        | -199.6 | -202.7 | -191.4 | -192.6 |
| Claims on public agencies (net)   | -32.0          | -42.7  | -30.7  | -29.9  | -34.8         | -32.2  | -34.3  | -34.7  | -34.8  |
| Claims on nongovernment   | 595.1          | 571.1  | 608.7  | 584.7  | 601.9         | 596.5  | 618.0  | 609.0  | 613.5  |
| Other items (net)   | -141.5         | -136.8 | -169.6 | -216.3 | -185.1        | -199.6 | -199.9 | -189.8 | -172.5 |
| Broad money (M2)  | 1047.8         | 1066.3 | 1062.8 | 1143.9 | 1175.3        | 1178.5 | 1171.1 | 1185.1 | 1175.5 |
| Currency  | 226.2          | 217.7  | 206.7  | 206.0  | 221.1         | 212.5  | 214.1  | 218.8  | 228.8  |
| Deposits  | 821.6          | 848.6  | 856.1  | 937.8  | 954.2         | 966.0  | 957.0  | 966.3  | 946.6  |
| (12-month change over broad money in same period last year, in percent) |                |        |        |        |               |        |        |        |        |
| Net foreign assets <sup>1</sup>   | 41.1           | -6.6   | 6.0    | 30.3   | -5.1          | 38.7   | 26.0   | 3.5    | -8.6   |
| Net domestic assets   | -33.9          | 14.9   | -0.9   | -17.0  | 17.3          | -28.1  | -15.8  | 0.1    | 8.6    |
| Domestic credit   | -35.2          | 14.4   | -1.2   | -11.8  | 21.5          | -22.3  | -13.0  | -2.3   | 7.6    |
| Claims on general government (net)                                      | -44.2          | 12.5   | -0.6   | -9.9   | 20.8          | -24.6  | -13.9  | -4.4   | 6.6    |
| Claims on nongovernment   | 9.0            | 1.9    | -0.7   | -2.0   | 0.6           | 2.4    | 0.9    | 2.1    | 1.0    |
| Other items (net)   | 1.2            | 0.6    | 0.3    | -5.2   | -4.2          | -5.9   | -2.9   | 2.3    | 1.1    |
| Broad money (M2)  | 7.2            | 8.3    | 5.0    | 13.3   | 12.2          | 10.5   | 10.2   | 3.6    | 0.0    |
| <i>Memorandum items:</i>  |                |        |        |        |               |        |        |        |        |
| (Annual percent change)   |                |        |        |        |               |        |        |        |        |
| Broad money (M2)  | 7.2            | 8.3    | 5.0    | 11.4   | 12.2          | 10.5   | 10.2   | 3.6    | 0.0    |
| Reserve money (RM)  | 10.2           | 19.3   | 8.6    | 22.4   | 25.1          | 20.6   | 19.8   | 2.0    | -3.9   |
| Credit to the economy   | 17.5           | 3.4    | -1.1   | -2.0   | 1.1           | 4.5    | 1.5    | 4.1    | 1.9    |

Source: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> The spike of net foreign assets and central government deposits at end-2007 is related to the financing of the Paris Club debt buyback. Gabon issued US\$1 billion Eurobond in December 2007, the proceeds of which were credited to a government account in a local bank that placed the funds in a bank abroad.

In January 2008 the Eurobond proceeds were used to finance the Paris Club debt buyback.

**Table 7. Gabon: Central Bank and Commercial Banks, 2007–09**

(Billions of CFA francs, end of period)

|  | 2007   | 2008   |        |        |        | 2009   |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|  | Dec.   | Mar.   | Jun.   | Sep.   | Dec.   | Mar.   | Jun.   | Sep.   | Dec.   |
|  | Actual | Actual |        |        | Proj.  | Proj.  |        |        |        |
| <i>Central bank</i>                      |        |        |        |        |        |        |        |        |        |
| Net foreign assets                       | 534.9  | 436.2  | 602.8  | 775.6  | 856.4  | 826.6  | 797.1  | 793.7  | 752.1  |
| Net domestic assets                      | -53.0  | 55.4   | -115.7 | -186.8 | -253.6 | -233.5 | -213.3 | -193.2 | -173.0 |
| Claims on general government (net)       | -56.0  | 53.9   | -80.0  | -150.8 | -242.7 | -222.6 | -202.4 | -182.3 | -162.1 |
| Claims on central government (net)       | -56.0  | 53.9   | -80.0  | -150.8 | -242.7 | -222.6 | -202.4 | -182.3 | -162.1 |
| Claims                                   | 110.4  | 218.9  | 117.2  | 90.9   | 39.6   | 39.6   | 39.6   | 39.6   | 39.6   |
| <i>of which, Statutory advances</i>      | 98.9   | 211.4  | 113.3  | 89.3   | 39.6   | 39.6   | 39.6   | 39.6   | 39.6   |
| Use of IMF credit                        | 11.0   | 7.1    | 3.5    | 1.2    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Deposits                                 | -166.4 | -165.1 | -197.3 | -241.6 | -282.2 | -262.1 | -242.0 | -221.8 | -201.7 |
| Other items (net)                        | 3.0    | 1.5    | -35.6  | -36.0  | -10.9  | -10.9  | -10.9  | -10.9  | -10.9  |
| Reserve money                            | 481.9  | 491.6  | 487.1  | 588.9  | 602.8  | 593.1  | 583.8  | 600.6  | 579.1  |
| Currency outside banks                   | 226.2  | 217.7  | 206.7  | 206.0  | 221.1  | 212.5  | 214.1  | 218.8  | 228.8  |
| Bank reserves                            | 245.9  | 265.8  | 269.9  | 365.6  | 371.0  | 370.0  | 359.0  | 371.1  | 339.6  |
| Cash                                     | 27.9   | 29.3   | 25.7   | 31.5   | 35.1   | 32.8   | 30.8   | 32.0   | 33.8   |
| Deposits                                 | 218.0  | 236.5  | 244.2  | 334.1  | 335.9  | 337.3  | 328.2  | 339.1  | 305.8  |
| Nonbank deposits                         | 9.8    | 8.1    | 10.5   | 17.2   | 10.7   | 10.7   | 10.7   | 10.7   | 10.7   |
| <i>Deposit money banks</i>               |        |        |        |        |        |        |        |        |        |
| Net foreign assets <sup>1</sup>          | 582.2  | 164.9  | 110.5  | 175.9  | 206.9  | 186.8  | 192.8  | 198.3  | 209.8  |
| Net domestic assets                      | 229.5  | 675.6  | 735.0  | 744.7  | 736.6  | 768.5  | 753.5  | 757.3  | 726.2  |
| Reserves                                 | 245.9  | 265.8  | 269.9  | 365.6  | 371.0  | 370.0  | 359.0  | 371.1  | 339.6  |
| Cash                                     | 27.9   | 29.3   | 25.7   | 31.5   | 35.1   | 32.8   | 30.8   | 32.0   | 33.8   |
| Deposits with central bank               | 218.0  | 236.5  | 244.2  | 334.1  | 335.9  | 337.3  | 328.2  | 339.1  | 305.8  |
| Domestic credit                          | 128.2  | 548.1  | 599.1  | 559.4  | 539.8  | 587.2  | 583.5  | 565.1  | 548.2  |
| Claims on central bank (net)             | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    | 0.0    |
| Claims on government (net)               | -467.0 | -23.0  | -9.7   | -25.3  | -62.1  | -9.3   | -34.6  | -43.9  | -65.3  |
| Claims on central government (net)       | -435.0 | 19.7   | 21.0   | 4.6    | -27.3  | 22.9   | -0.3   | -9.2   | -30.5  |
| Claims                                   | 116.8  | 98.3   | 102.7  | 74.4   | 52.7   | 102.9  | 79.7   | 70.8   | 49.5   |
| Deposits <sup>1</sup>                    | -551.8 | -78.6  | -81.7  | -69.8  | -80.0  | -80.0  | -80.0  | -80.0  | -80.0  |
| Claims on public agencies (net)          | -32.0  | -42.7  | -30.7  | -29.9  | -34.8  | -32.2  | -34.3  | -34.7  | -34.8  |
| Claims on nongovernment                  | 595.1  | 571.1  | 608.7  | 584.7  | 601.9  | 596.5  | 618.0  | 609.0  | 613.5  |
| Public enterprises                       | 1.8    | 1.3    | 1.2    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    | 1.8    |
| Private sector                           | 593.3  | 569.7  | 607.6  | 583.0  | 600.0  | 594.7  | 616.2  | 607.1  | 611.7  |
| Other items (net)                        | -144.5 | -138.3 | -133.9 | -180.3 | -174.2 | -188.7 | -189.0 | -178.9 | -161.6 |
| Deposit liabilities to nonbank residents | 821.6  | 848.6  | 856.1  | 937.8  | 954.2  | 966.0  | 957.0  | 966.3  | 946.6  |

Source: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> The spike of net foreign assets and central government deposits at end-2007 is related to the financing of the Paris Club debt buyback. Gabon issued US\$1billion Eurobond in December 2007, the proceeds of which were credited to a government account in a local bank that placed the funds in a bank abroad. In January 2008 the Eurobond proceeds were used to finance the Paris Club debt buyback.

**Table 8. Gabon: Financial Soundness Indicators for the Banking Sector, 2004–September, 2008**  
(Ratios in percent)

|  | 2004 | 2005 | 2006 | 2007             | Sep. 2008 |
|--|------|------|------|------------------|-----------|
| <i>Capital</i>   |      |      |      |                  |           |
| Regulatory capital to risk-weighted assets <sup>1,2</sup>                        | 22.3 | 19.8 | 17.8 | 14.3             | 19.6      |
| Tier 1 capital to risk-weighted assets <sup>2</sup>                              | 21.1 | 19.0 | 17.2 | 13.9             | 18.8      |
| Capital to total assets <sup>3</sup>   | 13.2 | 11.1 | 10.2 | 7.0 <sup>8</sup> | 10.7      |
| <i>Asset quality</i>   |      |      |      |                  |           |
| Nonperforming loans (gross) to total loans <sup>4</sup> (gross)                  | 16.0 | 14.1 | 10.7 | 7.6              | 7.9       |
| Nonperforming loans (gross) to total loans excluding loans to government (gross) | 20.1 | 17.4 | 12.9 | 9.3              | 8.9       |
| Nonperforming loans (net of provisioning) to regulatory capital <sup>2</sup>     | 30.3 | 26.3 | 22.4 | 16.7             | 10.5      |
| Loan loss provisions to nonperforming loans                                      | 53.6 | 55.5 | 57.4 | 59.8             | 67.5      |
| <i>Earnings and profitability</i>  |      |      |      |                  |           |
| Return on assets <sup>5</sup>  | 2.8  | 2.6  | 2.5  | 2.7              | ...       |
| Return on equity <sup>6</sup>  | 21.3 | 21.1 | 23.5 | 32.3             | ...       |
| <i>Liquidity</i>   |      |      |      |                  |           |
| Ratio of net loans to total deposits <sup>7</sup>                                | 70.9 | 59.8 | 63.0 | 46.9             | 55.1      |

Source: BEAC, COBAC, and IMF staff estimates using definitions from IMF's "Compilation Guide on Financial Soundness Indicators".

<sup>1</sup> Specific loan loss provisions are excluded from the definition of capital. General loan loss provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital and the minimum of Tier 1 and Tier 2 capital.

<sup>2</sup> Risk-weighted assets are estimated using the following risk weights: 0% – cash reserves in domestic and foreign currency and claims on the central bank and the government; 20% – claims on correspondent banks in foreign currency; 100% – all other assets.

<sup>3</sup> Loan loss provisions are excluded from the definition of capital.

<sup>4</sup> Total loans are the sum of claims on the economy net of claims on financial institutions, credits to nonresidents, and claims on government net of treasury bonds and related instruments (*bons d'équipement*).

<sup>5</sup> The ratio of after-tax profits to the average of beginning- and end-period total assets.

<sup>6</sup> The ratio of after-tax profits to the average of beginning- and end-period capital net of specific loan loss provisions.

<sup>7</sup> Including government deposits.

<sup>8</sup> The uncharacteristic drop in 2007 of capital to total assets is related to the financing of the Paris Club debt buyback. Gabon issued a US\$1 billion Eurobond in December 2007, the proceeds of which were deposited in a local branch of a foreign bank, which in turn deposited the money at its headquarters. In January 2008 the Eurobond proceeds were used to finance the Paris Club debt buyback.

**Table 9. Gabon: Public External Debt, 2007–11**

(Billions of CFA francs, end of period)

|                                     | 2007   | 2008   | 2009  | 2010  | 2011  |
|-------------------------------------|--------|--------|-------|-------|-------|
|                                     | Actual | Proj.  |       |       |       |
| <b>Debt stocks</b>                  |        |        |       |       |       |
| Total external debt (including IMF) | 1936.2 | 945.4  | 905.8 | 887.9 | 862.6 |
| Multilateral                        | 174.5  | 149.3  | 155.1 | 167.9 | 177.1 |
| Bilateral                           | 1293.4 | 372.4  | 327.1 | 296.3 | 237.1 |
| <i>Of which: Paris Club</i>         | 1251.6 | 331.8  | 282.3 | 245.9 | 192.4 |
| Commercial debt                     | 468.4  | 423.7  | 423.7 | 423.7 | 448.4 |
| <i>Of which: London Club</i>        | 0.0    | 0.0    | 0.0   | 0.0   | 0.0   |
| International Bond                  | 445.2  | 423.7  | 423.7 | 423.7 | 423.7 |
| <b>Debt service</b>                 |        |        |       |       |       |
| <b>Principal</b>                    |        |        |       |       |       |
| Total debt (Including IMF)          | 268.5  | 1045.5 | 112.4 | 105.5 | 118.7 |
| Multilateral                        | 41.5   | 35.5   | 26.5  | 27.2  | 31.5  |
| Bilateral                           | 196.7  | 951.6  | 78.4  | 76.4  | 85.6  |
| <i>Of which: Paris Club</i>         | 189.6  | 943.7  | 74.8  | 70.9  | 79.8  |
| Commercial debt                     | 30.3   | 58.4   | 7.5   | 1.9   | 1.6   |
| <i>Of which: London Club</i>        | 4.4    | 0.0    | 0.0   | 0.0   | 0.0   |
| International Bond                  | 0.0    | 21.5   | 0.0   | 0.0   | 0.0   |
| <b>Interest</b>                     |        |        |       |       |       |
| Total debt (Including IMF)          | 93.5   | 100.5  | 86.7  | 71.6  | 71.6  |
| Multilateral                        | 12.1   | 8.7    | 9.7   | 10.3  | 11.0  |
| Bilateral                           | 80.6   | 34.5   | 26.3  | 25.6  | 24.9  |
| <i>Of which: Paris Club</i>         | 79.8   | 33.5   | 23.5  | 21.1  | 18.7  |
| Commercial debt                     | 0.7    | 57.2   | 50.6  | 35.7  | 35.7  |
| <i>Of which: London Club</i>        | 0.3    | 0.0    | 0.0   | 0.0   | 0.0   |
| International Bond <sup>1</sup>     | 0.0    | 56.7   | 50.2  | 35.2  | 35.2  |
| <b>Memorandum items:</b>            |        |        |       |       |       |
| Total debt service/Exports (%)      |        |        |       |       |       |
| Principal                           | 7.8    | 24.4   | 4.3   | 3.4   | 3.5   |
| Interest                            | 2.7    | 2.3    | 3.3   | 2.3   | 2.1   |
| External public debt / GDP (%)      | 34.9   | 14.6   | 18.0  | 15.5  | 13.9  |
| External public debt / exports (%)  | 56.0   | 22.1   | 34.6  | 28.5  | 25.6  |

Source: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Including management fees.

**Table 10. Gabon: Stock of Domestic Government Liabilities, 2007–11<sup>1</sup>**  
(Billions of CFA francs, end-of-period)

|  | 2007                |                        |                    | 2008                |                        |                    | 2009              | 2010              | 2011              |
|--|---------------------|------------------------|--------------------|---------------------|------------------------|--------------------|-------------------|-------------------|-------------------|
|  | Estimate            |                        |                    | Projection          |                        |                    | Projection        |                   |                   |
|  | Principle repayment | Assumption of new debt | Stock              | Principle repayment | Assumption of new debt | Stock              | Stock             |                   |                   |
| Stock of domestic debt   | ...                 | ...                    | 460.4              | ...                 | ...                    | 323.6              | 249.5             | 180.5             | 116.5             |
| Liabilities to the domestic banking system                                 | ...                 | ...                    | 227.2              | ...                 | ...                    | 92.3               | 89.1              | 78.3              | 68.2              |
| BEAC   | ...                 | ...                    | 110.4              | ...                 | ...                    | 39.6               | 39.6              | 35.6              | 32.0              |
| <i>of which</i> , Statutory advances                                       | ...                 | ...                    | 98.9               | ...                 | ...                    | 39.6               | 39.6              | 35.6              | 32.0              |
| Commercial banks   | ...                 | ...                    | 116.8              | ...                 | ...                    | 52.7               | 49.5              | 42.7              | 36.2              |
| <i>of which</i> , Equipment bonds  | ...                 | ...                    | 82.9               | ...                 | ...                    | n.a.               | ...               | ...               | ...               |
| Non-bank domestic government debt  | 145.6               | 107.6                  | 233.2              | 103.5               | 112.1                  | 231.4              | 160.4             | 102.2             | 48.3              |
| Registered at the National Debt Office (DGCP)                              | 60.0                | 106.0 <sup>6</sup>     | 121.5              | 78.5                | 112.1 <sup>6</sup>     | 144.7 <sup>7</sup> | 98.7 <sup>7</sup> | 65.5 <sup>7</sup> | 36.6 <sup>7</sup> |
| Debt under moratorium ( <i>moratoire</i> )                                 | 16.3                | 9.5                    | 7.5                | 25.6                | 18.2                   | 0.0                | 0.0               | 0.0               | 0.0               |
| Other obligations ( <i>divers</i> )  | 43.7                | 96.6                   | 114.1              | 52.9                | 31.5                   | 92.7               | 57.1              | 34.3              | 15.8              |
| Regional bond <sup>2</sup>   | ...                 | ...                    | ...                | 10.4                | 62.4                   | 52.0               | 41.6              | 31.2              | 20.8              |
| Registered at the Treasury   | 85.6                | 1.6                    | 111.7 <sup>7</sup> | 25.0                | 0.0                    | 86.7 <sup>7</sup>  | 61.7 <sup>7</sup> | 36.7 <sup>7</sup> | 11.7 <sup>7</sup> |
| "Club de Libreville" agreements <sup>3</sup>                               | 38.3                | 1.6                    | 0.0                | 0.0                 | 0.0                    | 0.0                | 0.0               | 0.0               | 0.0               |
| Arrears on salary adjustments ( <i>rappels de la solde</i> ) <sup>4</sup>  | 23.4                | 0.0                    | 88.7               | 20.0                | 0.0                    | 68.7               | 48.7              | 28.7              | 8.7               |
| Other debt and arrears <sup>5</sup>  | 23.9                | 0.0                    | 23.0               | 5.0                 | 0.0                    | 18.0               | 13.0              | 8.0               | 3.0               |
| Amount owed on accounts at the Agence Comptable Centrale des Depots (ACCD) | ...                 | ...                    | ...                | ...                 | ...                    | 16.4               | ...               | ...               | ...               |

Source: Gabonese authorities, and IMF staff estimates.

<sup>1</sup> Domestic non-bank liabilities include all domestic debt registered at the National Debt Office (DGCP) and all other documented domestic liabilities registered at the Treasury. Not included in this definition are intragovernmental debt, treasury float (*instances du Trésor*), and social plans and restructuring costs for public enterprises undergoing privatization or liquidation.

<sup>2</sup> CEMAC bond issued in January 2008 to finance the early repayment of Paris Club external debt. Only the initial subscription and related payments to Gabonese non-bank residents and banks in other CEMAC countries are recorded.

<sup>3</sup> Since 2004, the government has been regularizing domestic arrears by seeking agreements with supplier and other private-sector enterprises. The process is known as "Club de Libreville".

<sup>4</sup> Unpaid salary adjustments result from delayed regularization of automatic promotions of civil servants. Requests for regularization, typically made by retiring civil servants, are subject to verification by court before payments can be made. Given the backlog of court cases the stock of related debt items is not yet final.

<sup>5</sup> Includes two types of treasury arrears and other debt. The first type of arrears, regularized in the first quarter of 2007, included arrears to SOGARA and other arrears that were later regularized under the Club de Libreville III and IV umbrellas. The second type includes arrears accumulated on behalf of the Fonds d'entretien routier (FER) and the state's obligation to compensate citizens for the damage caused by the political upheaval during the mid-1990s. There are still audits outstanding, implying that the stock of related debt items is not yet final. Other treasury debt included government debt to SOGARA from regularization of arrears arising from unpaid fuel subsidies (gross sum of CFAF 47 billion from which 23.2 billion of Sogara tax arrears were netted out) assumed with a letter of the Finance Minister to Sogara on January 25, 2007.

<sup>6</sup> The new debt (of all types) assumed by DGCP is imputed as the difference between the reported end-year debt stocks in two consecutive years minus reported principle repayments over the period.

<sup>7</sup> For all types of debt registered at the Treasury and DGCP, stocks from 2007 onward are estimated by adding to the end-2006 stocks the reported new assumption of obligations and subtracting principle payments.

**Table 11. Gabon: Indicators of External Vulnerability, 2004–08**

|   | 2004  | 2005  | 2006  | 2007   | 2008  |
|---|-------|-------|-------|--------|-------|
|   |       | Est.  | Est.  | Est.   | Proj. |
| Exports (percent change, 12-month basis, US\$)  | 33.1  | 29.1  | 5.6   | 21.3   | 32.7  |
| Imports (percent change, 12-month basis, US\$)  | 17.8  | 10.6  | 12.7  | 15.9   | 21.6  |
| Terms of trade (percent change, 12-month basis)   | 8.4   | 21.0  | 8.5   | 5.2    | 18.1  |
| Current account balance, incl. grants (percent of GDP)  | 11.2  | 22.9  | 12.6  | 15.5   | 16.9  |
| Gross official reserves (US\$ millions)   | 442   | 678   | 1,125 | 1,292  | 1,882 |
| Gross official reserves (in months of imports of goods and services of the following year) <sup>1</sup>           | 2.0   | 3.0   | 3.9   | 3.4    | 5.9   |
| Gross reserves of the banking system (US\$ millions) <sup>1</sup>   | 838   | 1,158 | 1,622 | 2,813  | 2,290 |
| Gross reserves of the banking system (months of imports of goods and services in the following year) <sup>1</sup> | 3.9   | 5.2   | 5.6   | 7.5    | 7.2   |
| Central bank short-term foreign liabilities (US\$ millions) <sup>1</sup>  | 104.4 | 74.9  | 61.9  | 35.5   | 13.1  |
| Total public and publicly guaranteed external debt (US\$ millions)  | 3,857 | 3,234 | 3,270 | 4,303  | 1,945 |
| Total external debt to exports of goods and services (percent)  | 80.0  | 60.5  | 52.3  | 56.0   | 22.1  |
| External interest payments to exports of goods and services (percent)   | 3.9   | 2.7   | 3.0   | 2.7    | 2.3   |
| External amortization payments to exports of goods and services (percent)   | 9.4   | 6.1   | 7.8   | 7.8    | 24.4  |
| Exchange rate (per US\$, period average)  | 527.6 | 526.6 | 522.4 | 478.6  | 446.0 |
| Exchange rate (per US\$, end of period)   | 489.2 | 553.3 | 496.5 | 449.9  | 486.0 |
| Net foreign assets of commercial banks (US\$ millions)  | 257.9 | 375.9 | 377.7 | 1294.0 | 425.6 |

Source: Gabonese authorities and IMF staff estimates.

<sup>1</sup> Gabon is a member of the Central African Economic and Monetary Community (CEMAC) and its regional central bank (BEAC). Gross reserves in the table are BEAC gross reserves imputed to Gabon.

**Table 12. Gabon: Capacity to Repay the Fund, 2007–14<sup>1</sup>**

|  | 2007 | 2008 | 2009 | 2010  | 2011 | 2012 | 2013 | 2014 |
|--|------|------|------|-------|------|------|------|------|
|  |      |      |      | Proj. |      |      |      |      |
| (SDR millions, unless otherwise indicated) |      |      |      |       |      |      |      |      |
| Obligations from existing drawings         |      |      |      |       |      |      |      |      |
| Principal (repurchases)                    | 22.2 | 15.6 | 0.0  | 0.0   | 0.0  | 0.0  | 0.0  | 0.0  |
| Charges                                    | 1.7  | 0.0  | 0.1  | 0.1   | 0.1  | 0.1  | 0.1  | 0.1  |
| Credit outstanding                         | 15.6 | 0.0  | 0.0  | 0.0   | 0.0  | 0.0  | 0.0  | 0.0  |
| (percent of quota)                         | 10.1 | 0.0  | 0.0  | 0.0   | 0.0  | 0.0  | 0.0  | 0.0  |
| Obligations from prospective drawings      |      |      |      |       |      |      |      |      |
| Principal (repurchases)                    | 0.0  | 0.0  | 0.0  | 0.0   | 18.5 | 37.4 | 20.1 | 1.2  |
| Charges                                    | 0.0  | 0.0  | 1.0  | 1.5   | 1.4  | 0.9  | 0.2  | 0.0  |
| Credit outstanding                         | 0.0  | 0.0  | 67.9 | 77.2  | 58.7 | 21.3 | 1.2  | 0.0  |
| (percent of quota)                         | 0.0  | 0.0  | 44.0 | 50.0  | 38.0 | 13.8 | 0.7  | 0.0  |
| Cumulative (existing and prospective)      |      |      |      |       |      |      |      |      |
| Principal (repurchases)                    | 22.2 | 15.6 | 0.0  | 0.0   | 18.5 | 37.4 | 20.1 | 1.2  |
| Charges                                    | 1.7  | 0.0  | 1.1  | 1.6   | 1.5  | 1.0  | 0.4  | 0.1  |
| Credit outstanding                         | 15.6 | 0.0  | 67.9 | 77.2  | 58.7 | 21.3 | 1.2  | 0.0  |
| Percent of quota                           | 10.1 | 0.0  | 44.0 | 50.0  | 38.0 | 13.8 | 0.8  | 0.0  |
| Percent of GDP                             | 0.2  | 0.0  | 1.0  | 1.0   | 0.7  | 0.2  | 0.0  | 0.0  |
| Percent of exports of goods and services   | 0.3  | 0.0  | 1.9  | 1.8   | 1.3  | 0.5  | 0.0  | 0.0  |
| Percent of external public debt            | 0.6  | 0.0  | 5.5  | 6.4   | 5.0  | 1.8  | 0.1  | 0.0  |
| Percent of external public debt service    | 3.1  | 0.0  | 25.0 | 31.9  | 22.5 | 8.7  | 0.5  | 0.0  |
| Percent of gross foreign reserves          | 2.0  | 0.0  | 6.6  | 5.1   | 2.6  | 0.7  | 0.0  | 0.0  |
| <i>Memorandum items:</i>                   |      |      |      |       |      |      |      |      |
| Purchases <sup>2</sup>                     | 0.0  | 0.0  | 67.9 | 9.3   | 0.0  | 0.0  | 0.0  | 0.0  |

Sources: IMF, Finance Department, Gabonese authorities, and IMF staff estimates and projections.

<sup>1</sup> Repurchases are based on expectation schedule.

<sup>2</sup> Scenario under the assumption that Gabon makes all allowed purchases under the SBA.

However, authorities have stated their intent to treat the SBA as precautionary.

**Table 13. Gabon: Quantitative Performance Criteria for the SBA, end-2007 and March and June, 2008**

(Billions of CFA francs; end-period data)

|   | 2007   |        |        |         |        | 2008  |       |         |        |        |        |         |       |        |
|---|--|--------|--------|---------|--------|-------|-------|---------|--------|--------|--------|---------|-------|--------|
|   | Dec.   |        |        |         | Status | Mar.  |       |         |        | Jun.   |        |         |       |        |
|   | Prog.  | Adj.   | Prog.  | Actual  |        | Prog. | Adj.  | Prog.   | Actual | Status | Prog.  | Adj.    | Prog. | Actual |
| Performance criteria <sup>1</sup>   | (Cumulative flows from January 1st of each year, unless otherwise noted) |        |        |         |        |       |       |         |        |        |        |         |       |        |
| Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) <sup>2</sup> | -314.1   | -319.7 | -368.8 | not met | -68.9  | -68.9 | -97.0 | not met | -117.5 | -117.5 | -158.6 | not met |       |        |
| Ceiling on the stock of net claims of the banking system on the central government <sup>3</sup>                             | -191.1   | -176.6 | -491.0 | met     | -260.2 | 360.0 | 73.6  | met     | -385.1 | 198.1  | -59.0  | met     |       |        |
| Ceiling on the contracting or guaranteeing of new external debt by the central government <sup>4</sup>                      | 165.2  | 610.4  | 521.2  | met     | 190.3  | 190.3 | 58.0  | met     | 247.7  | 247.7  | 311.1  | not met |       |        |
| Ceiling on the accumulation of external payment arrears by the central government <sup>5</sup>                              | 0.0  | 0.0    | 0.0    | met     | 0.0    | 0.0   | 0.0   | met     | 0.0    | 0.0    | 0.0    | met     |       |        |
| Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government                        | 0.0  | 0.0    | 0.0    | met     | 0.0    | 0.0   | 0.0   | met     | 0.0    | 0.0    | 0.0    | met     |       |        |

Sources: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Detailed definitions of the performance criteria are provided in the Technical Memorandum of Understanding in Country Report 07/174.

<sup>2</sup> The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

<sup>3</sup> The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service, payments of domestic debt service, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). Upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*).

<sup>4</sup> This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral creditors.

<sup>5</sup> The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

**Table 14. Gabon: Structural Measures under the SBA**

| Test date <sup>1</sup>          | Actions   | Current situation   | PC or Benchmark      |
|---------------------------------|---|---|----------------------|
| <b>Second and Third Reviews</b> |   |   |                      |
| Dec-07                          | Present to parliament a 2008 budget that includes in the accompanying economic and financial report, (i) summary budget execution reports for 2005-06 and estimates for 2007; and (ii) an annex with estimates of all tax expenditures by type of tax.  | <b>Observed</b> , although further clarifications needed on tax expenditure estimates                                       | <b>PC</b>            |
|                                 | Subject all 2007 capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.  | <b>Observed</b>   | <b>Continuous PC</b> |
| Feb-08                          | Make operational the oil-revenue projection model that links oil revenue to production, prices, costs, and physical parameters on a contract-by-contract basis, apply it to evaluate oil revenue payments collected by the Treasury in 2007, and identify reasons for discrepancies in realized oil revenues. | <b>Observed</b> , although reasons for differences between actual and estimated revenue in 2007 need further clarification. | <b>PC</b>            |
| Mar-08                          | Adjust ex-refinery fuel product prices to reflect the changes in import parity prices, as calculated for the purpose of the automatic adjustment formula, since September 2007.   | <b>Not observed</b>   | <b>PC</b>            |
|                                 | Starting in April 2008, apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.  | <b>Not observed</b>   | <b>Continuous PC</b> |
| Dec-07                          | Publish the list of projects of the 2008 <i>fêtes tournantes</i> in the national press.   | <b>Observed with delay.</b> The list was published end June.  | <b>Benchmark</b>     |
| Dec-07                          | Prepare a comprehensive government asset and liability management strategy.   | <b>Partially met end-May.</b> The strategy provided by the authorities is too general and lacks specifics.                  | <b>Benchmark</b>     |
| Dec-07                          | Develop a three-year, rolling medium-term expenditure framework including consistent sectoral programs for 2008–10.   | <b>Not observed.</b><br>A global framework has been developed but consistent sectoral frameworks are not yet ready.         | <b>Benchmark</b>     |
| Dec-07                          | Reduce the Treasury payment period to 60 days and announce it on the Treasury Web site.   | <b>Observed</b>   | <b>Benchmark</b>     |
| Dec-07                          | Prepare monthly budget execution reports with a maximum lag of two months.  | <b>Not observed</b>   | <b>Benchmark</b>     |
| Dec-07                          | Reduce the proportion of government procurement contracts awarded on a single-source basis on exceptional grounds to below 50 percent of the total value of contracts submitted to the public procurement office.   | <b>Observed</b>   | <b>Benchmark</b>     |
| Dec-07                          | Publish the Official Gazette on the Internet.   | <b>Observed with delay.</b> The contents of the Official Gazette were published in June.                                    | <b>Benchmark</b>     |
| Apr-08                          | Complete the audit of SOGARA.   | <b>Observed with delay.</b> A preliminary audit report was made available in August.  | <b>Benchmark</b>     |
| Apr-08                          | Prepare an action plan and a cost estimate for implementing the health insurance and social security system.  | <b>Observed with delay.</b><br>Documents prepared end June.   | <b>Benchmark</b>     |

*(continued on next page)*<sup>1</sup> Unless otherwise specified, all dates refer to the end of the month.

**Table 14 (cont.). Gabon: Structural Measures under the SBA**

| Test date <sup>1</sup> | Actions  | Current situation | Objective                                    | PC or Benchmark      |
|------------------------|--|-------------------|--|----------------------|
|                        | Apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.   |                   | Ensure fuel price subsidies do not increase  | <b>Continuous PC</b> |
|                        | Subject all capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.  |                   |  | <b>Continuous PC</b> |
| <b>Fourth Review</b>   |  |                   |  |                      |
| Mar-09                 | Publish the list of projects of the 2009 <i>fêtes tournantes</i> in the national press.  |                   | Promote transparency and good governance     | <b>Benchmark</b>     |
| Apr-09                 | Select an external auditor to audit the government spending on the 2006, 2007, and 2008 <i>fêtes tournantes</i> .  |                   | Promote transparency and good governance     | <b>Benchmark</b>     |
| Jun-09                 | Reduce Treasury payment period to 30 days.   |                   | Promote efficiency and effectiveness         | <b>Benchmark</b>     |
| Jun-09                 | Publish quarterly reports (starting with the first quarter 2009 with 1 quarter lag) of oil revenue outturns as estimated by the oil revenue model and as shown in the TOFE, including explanations of discrepancies between these estimates. |                   | Promote transparency and good governance     | <b>Benchmark</b>     |
| <b>Fifth Review</b>    |  |                   |  |                      |
| Sep-09                 | Prepare a comprehensive review of all VAT and PIT tax exemptions, with the objective of curtailing their scope significantly.  |                   | Broaden the tax base, and reduce distortions | <b>Benchmark</b>     |
| Dec-09                 | Reduce the amount of tax exemptions in the 2010 budget by 25 percent.  |                   | Broaden the tax base, and reduce distortions | <b>Benchmark</b>     |
| Dec-09                 | Reduce the proportion of single-source government procurement contracts awarded on a single-source basis on exceptional grounds to below 30 percent of the total value of contracts submitted to the public procurement office.              |                   | Promote transparency and competition         | <b>Benchmark</b>     |
| Dec-09                 | Adopt a statistics law by the government and submit it to parliament.  |                   | Strengthening national accounts statistics   | <b>Benchmark</b>     |

<sup>1</sup> Unless otherwise specified, all dates refer to the end of the month.

**Table 15. Gabon: Quantitative Performance Criteria and Indicative Targets for the SBA, end-2008 and 2009**

(Billions of CFA francs; end-period data)

|  | 2008               | 2009  |                 |                           |                           |
|--|--------------------|---|-----------------|---------------------------|---------------------------|
|  | Dec.<br>Projection | Mar.<br>Program   | Jun.<br>Program | Sep.<br>Indicative target | Dec.<br>Indicative target |
| Performance criteria <sup>1</sup>  |                    | (Cumulative flows from January 1st, unless otherwise noted) |                 |                           |                           |
| Floor on the primary fiscal balance, excluding oil revenue, restructuring costs, and capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation (on a payments order basis) <sup>2</sup> | -432.0             | -93.6   | -163.9          | -273.9                    | -367.6                    |
| Ceiling on the stock of net claims of the banking system on the central government <sup>3</sup>  | -270.0             | -199.6  | -202.7          | -191.4                    | -192.6                    |
| Ceiling on the contracting or guaranteeing of new external debt by the central government <sup>4</sup>   | 345.9              | 222.9   | 284.2           | 300.0                     | 334.4                     |
| Ceiling on the accumulation of external payment arrears by the central government <sup>5</sup>   | 0.0                | 0.0   | 0.0             | 0.0                       | 0.0                       |
| Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government   | 0.0                | 0.0   | 0.0             | 0.0                       | 0.0                       |

Sources: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Detailed definitions of the performance criteria are provided in the attached Technical Memorandum of Understanding.

<sup>2</sup> The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

<sup>3</sup> The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service net of new external debt issues, payments of domestic debt service net of new domestic debt issues and financing received on account of the float on accounts at the Agence Comptable Centrale des Depots, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). Upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*) and government bonds issued on the CEMAC market.

<sup>4</sup> This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral creditors.

<sup>5</sup> The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

**Table 16. Gabon: Revised Purchase Schedule and Terms Under the Stand-By Arrangement, 2007–10<sup>1</sup>**

|    | Amount of purchase | Cumulative purchases | Percent of program | Percent of quota | Availability Date | Conditions include |  |
|----|--------------------|----------------------|--------------------|------------------|-------------------|--------------------|--|
| 1. | SDR million        | 5.50                 | 5.50               | 7.1              | 3.6               | May, 2007          | Executive Board Approval   |
| 2. | SDR million        | 5.50                 | 11.00              | 7.1              | 3.6               | December 15, 2007  | Completion of First Review and observance of end-September 2007 performance criteria |
| 3. | SDR million        | 29.00                | 40.00              | 37.6             | 18.8              | February 24, 2009  | Completion of Second and Third Reviews and observance of prior actions               |
| 4. | SDR million        | 9.29                 | 49.29              | 12.0             | 6.0               | May 15, 2009       | Observance of end March 2009 performance criteria                                    |
| 5. | SDR million        | 9.29                 | 58.58              | 12.0             | 6.0               | August 15, 2009    | Completion of Fourth Review and observance of end-June 2009 performance criteria     |
| 6. | SDR million        | 9.29                 | 67.86              | 12.0             | 6.0               | November 15, 2009  | Observance of end September 2009 performance criteria                                |
| 7. | SDR million        | 9.29                 | 77.15              | 12.0             | 6.0               | February 15, 2010  | Completion of Fifth Review and observance of end December 2009 performance criteria  |

<sup>1</sup> Total Stand-by Arrangement access is SDR 77.15 million (50 percent of quota).

## APPENDIX I—ASSESSING EXTERNAL DEBT SUSTAINABILITY<sup>1</sup>

*Gabon's debt-to-GDP ratio is assessed to be sustainable in the baseline scenario. The ratio remains well below the critical range of 40 percent of GDP under all the stress tests, except oil price shocks. The debt-to-GDP ratio breaches the critical range within 5 years if oil prices drop more than \$7 per bbl relative to the baseline.*

1. **Staff analyzed the sustainability of Gabon's external debt based on the framework for market-access countries** as modified to take into account the fact that Gabon is a net creditor country and an oil exporter with declining production. While the standard analysis was used to compare baseline projections with an “unbiased” scenario where all variables are assumed to evolve in line with historical averages, some stress tests were adjusted. Because Gabon's oil production is projected to decline steadily over the next two decades, the standard analysis was also extended beyond the five-year horizon, to assess the sustainability of debt through 2030.
2. **Public external debt fell substantially in 2008 as a result of Gabon's prepayment of 86 percent of its Paris Club debt at a discount.** The US\$1.6 billion prepayment was financed by issuance of a Eurobond (a 10-year US\$1 billion bullet bond with an 8.2 percent coupon) in December 2007, a CFAF 81.5 billion bond on the CEMAC market (a six-year amortizing CFAF bond with a 5.5 percent coupon) in January 2008, and credit from the BEAC (CFAF 224 billion).<sup>2</sup> The discount amounted to about FCFA 130 billion. Because the Eurobond was issued in December 2007 and the prepayment took place in 2008, the stock of external debt increased from 32.5 percent of GDP at end-2006 to 34.9 at end-2007, before dropping to 14.6 percent of GDP at end-2008. The authorities plan to retire the full amount of the Eurobond at maturity. For that purpose, they have opened a sinking fund managed by the World Bank where they intend to deposit a minimum of US\$50 million a year. The fund could be used to buy back amounts of the Eurobond debt on the secondary markets when opportunities arise—indeed it was used to buy back \$54.4 million of the Eurobond debt in 2008. However, for simplicity, it is assumed that no such transactions further take place until the bond's maturity, hence the sharp drop of the external debt in 2017.
3. **Because an oil price change has a heavy impact both on nominal GDP and the current account, the standard tests have been modified to distinguish between oil and**

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<sup>1</sup> For lack of data, private debt is excluded from this analysis. However the amount of private external debt is suspected to be minor.

<sup>2</sup> As is standard practice for CFA-zone countries, the regional bond is considered domestic debt and thus excluded from this DSA.

**non-oil developments.**<sup>3</sup> The standard GDP growth shock has been replaced by a shock on non-oil growth, and the current account shock has been replaced by an oil price shock equivalent to a drop from the baseline oil price equal to 50 percent of the standard deviation over 2002–07, or roughly a drop of \$9 per bbl.<sup>4</sup> In the oil price shock scenario, the change in the oil price affects both oil GDP and the current account. For the depreciation scenario, the DSA template was modified to reflect that a large, but gradually decreasing, share of Gabon’s GDP is denominated in foreign currency (for exports of oil, manganese, and wood).

4. **The baseline scenario for 2009–30 assumes that a long term sustainable non-oil fiscal deficit is attained in 2014.** Real non-oil GDP growth increases from 3 percent in 2008 to about 6.1 percent in 2010 and then declines gradually to 2 percent, its long-term historical average.<sup>5</sup> Real oil GDP drops substantially between 2011 and 2013 after production in new marginal oil fields levels off, but then declines more gradually by about 1.7 percent a year. International oil prices and the CFAF/US\$ exchange rates reflect *World Economic Outlook* projections through 2014 and are kept constant in real terms afterward. The external current account surplus, which is adversely affected by the decline in oil production, falls from a surplus of 16.9 percent of GDP in 2008 to roughly a balanced position by 2030. Imports decrease relative to GDP with the decline in the investment needs of the oil sector as resources are exhausted, as do income outflows, while income inflows increase due to interest revenue generated by accumulated fiscal reserves. The non-oil primary deficit is assumed to decline to its permanently sustainable level of 3.3 percent of non-oil GDP by 2014 and then hold there.

5. **In the long term, new external debt is assumed to be contracted annually at 2 percent of non-oil GDP, slightly higher than the average over 2002–07, to finance investment.** Half of the new debt is contracted from multilateral institutions on a 10-year repayment schedule with a 2-year grace period. The other half is borrowed from bilateral creditors with a 7-year maturity and a 2-year grace period. Interest is charged at the euro CIR rate.<sup>6</sup>

## Results

6. **Gabon’s debt-to-GDP ratio is projected to be sustainable in the baseline scenario.** The debt-to-GDP ratio is projected to peak at 18 percent of GDP in 2009 and then

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<sup>3</sup> Because of the exceptional movements in international oil prices in 2002 and 2008, all tests have been calibrated for standard deviations for 2002–07 rather than over the default period of 1998–2008 of the DSA Template.

<sup>4</sup> The oil price shock amounts to a drop of the baseline oil price equal to 50 percent of the standard deviation of oil prices over the period 2002–07, or roughly a drop of \$9 per bbl.

<sup>5</sup> Because of lack of information, the projections do not incorporate the impact of the Belinga Iron ore mining project on the economy (e.g., growth, the current account, etc.).

<sup>6</sup> The authorities have indicated that Gabon will not incur any debt or contingent liabilities stemming from the Belinga Iron ore mining project.

fall steadily, dropping to 6.4 percent of GDP after the Eurobond is repaid in 2017, and reaching 4.6 percent by 2030.

7. **Under all the stress tests, except the oil price shock, Gabon's external debt remains below 20 percent of GDP.** Not surprisingly, since oil production is declining in Gabon, the scenario based on historical averages is the most favorable with external debt being totally repaid in 2009.

8. **The debt-to-GDP ratio rises above the critical range of 40 percent of GDP in 2013 in the case of the oil price shock.** More generally, the ratio breaches the critical range within 5 years if oil prices drop more than \$7 per bbl relative to the baseline. However, in net terms, the ratio remains below the critical range when the accumulation of foreign assets (partly to repay the Eurobond at maturity) is factored in.

**Appendix Table 1. Gabon: External Debt Sustainability Framework, 2003-2030**  
(In percent of GDP, unless otherwise indicated)

|  | Actual |       |       |       |       | Projections |       |       |       |       |       |       |       |      |      |      |      |       |      |      | Debt-stabilizing<br>non-interest<br>current account <sup>6</sup> |
|--|--------|-------|-------|-------|-------|-------------|-------|-------|-------|-------|-------|-------|-------|------|------|------|------|-------|------|------|--|
|  | 2003   | 2004  | 2005  | 2006  | 2007  | 2008        | 2009  | 2010  | 2011  | 2012  | 2013  | 2015  | 2016  | 2017 | 2018 | 2019 | 2020 | 2025  | 2030 |      |  |
| <b>Baseline: External debt</b>   | 55.9   | 49.8  | 39.1  | 32.5  | 34.9  | 14.6        | 18.0  | 15.5  | 13.9  | 13.5  | 13.5  | 12.8  | 12.5  | 6.4  | 6.0  | 5.6  | 5.3  | 4.1   | 4.6  | -7.4 |  |
| Change in external debt  | -7.1   | -6.2  | -10.6 | -6.6  | 2.4   | -20.3       | 3.3   | -2.5  | -1.5  | -0.4  | 0.0   | -0.6  | -0.3  | -6.1 | -0.3 | -0.4 | -0.4 | -0.1  | 0.2  |      |  |
| Identified external debt-creating flows (4+8+9)                              | -25.5  | -24.4 | -31.5 | -23.9 | -33.1 | -23.7       | -9.3  | -12.9 | -16.2 | -12.3 | -11.0 | -10.4 | -9.9  | -9.3 | -8.9 | -8.4 | -9.7 | -10.0 | -7.4 |      |  |
| Current account deficit, excluding interest payments                         | -13.5  | -13.6 | -24.6 | -14.5 | -17.2 | -18.4       | -3.0  | -5.1  | -6.3  | -4.4  | -3.1  | -3.6  | -3.0  | -2.4 | -1.6 | -1.0 | -2.3 | -2.6  | 0.0  |      |  |
| Deficit in balance of goods and services                                     | -24.3  | -30.2 | -37.0 | -32.3 | -31.2 | -34.8       | -15.0 | -18.0 | -18.9 | -16.1 | -13.9 | -12.3 | -11.1 | -9.9 | -8.6 | -7.3 | -7.9 | -5.6  | -1.5 |      |  |
| Exports  | 55.3   | 62.2  | 64.7  | 62.1  | 62.4  | 66.3        | 51.9  | 54.2  | 54.4  | 52.3  | 49.9  | 47.9  | 47.0  | 46.1 | 45.1 | 44.3 | 43.3 | 38.9  | 34.9 |      |  |
| Imports  | 31.1   | 32.0  | 27.7  | 29.8  | 31.2  | 31.5        | 36.9  | 36.2  | 35.6  | 36.2  | 36.0  | 35.5  | 35.9  | 36.2 | 36.6 | 36.9 | 35.4 | 33.3  | 33.4 |      |  |
| Net non-debt creating capital inflows (negative)                             | -4.4   | -4.6  | 0.0   | -7.7  | -11.9 | -6.3        | -7.4  | -8.3  | -10.5 | -8.6  | -8.7  | -7.6  | -7.7  | -7.7 | -7.7 | -7.7 | -7.8 | -7.7  | -7.6 |      |  |
| Automatic debt dynamics <sup>1</sup>   | -7.5   | -6.3  | -6.8  | -1.7  | -4.0  | 1.0         | 1.0   | 0.4   | 0.6   | 0.8   | 0.8   | 0.8   | 0.8   | 0.8  | 0.4  | 0.4  | 0.4  | 0.3   | 0.3  |      |  |
| Contribution from nominal interest rate                                      | 4.1    | 2.4   | 1.7   | 1.9   | 1.7   | 1.6         | 1.7   | 1.2   | 1.2   | 1.1   | 1.0   | 1.1   | 1.0   | 1.0  | 0.5  | 0.5  | 0.5  | 0.4   | 0.4  |      |  |
| Contribution from real GDP growth  | -1.3   | -0.6  | -1.2  | -0.4  | -1.5  | -0.6        | -0.7  | -0.8  | -0.6  | -0.3  | -0.2  | -0.2  | -0.2  | -0.2 | -0.1 | -0.1 | -0.1 | -0.1  | -0.1 |      |  |
| Contribution from price and exchange rate changes <sup>2</sup>               | -10.3  | -8.1  | -7.3  | -3.2  | -4.2  | ...         | ...   | ...   | ...   | ...   | ...   | ...   | ...   | ...  | ...  | ...  | ...  | ...   | ...  |      |  |
| Residual, incl. change in gross foreign assets (2-3) <sup>3</sup>            | 18.5   | 18.3  | 20.9  | 17.3  | 35.5  | 3.5         | 12.7  | 10.4  | 14.7  | 11.8  | 11.1  | 9.7   | 9.6   | 3.1  | 8.6  | 8.0  | 9.3  | 9.9   | 7.6  |      |  |
| External debt-to-exports ratio (in percent)                                  | 101.1  | 80.0  | 60.5  | 52.3  | 56.0  | 22.1        | 34.6  | 28.5  | 25.6  | 25.8  | 27.1  | 26.7  | 26.6  | 13.8 | 13.3 | 12.7 | 12.1 | 10.6  | 13.2 |      |  |
| <b>Gross external financing need (in billions of US dollars)<sup>4</sup></b> | -0.2   | -0.4  | -1.6  | -0.7  | -1.2  | -0.1        | 0.1   | -0.2  | -0.4  | -0.2  | -0.1  | -0.2  | -0.1  | 0.9  | 0.1  | 0.2  | 0.0  | -0.1  | 0.4  |      |  |
| in percent of GDP  | -3.6   | -5.3  | -18.9 | -7.8  | -10.7 | -0.7        | 1.0   | -2.0  | -3.2  | -1.6  | -0.7  | -1.0  | -0.7  | 5.9  | 0.5  | 1.1  | -0.1 | -0.7  | 1.6  |      |  |
| <b>Scenario with key variables at their historical averages<sup>5</sup></b>  |        |       |       |       |       |             | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0  | 0.0  | 0.0  | 0.0  | 0.0   | 0.0  | -5.0 |  |
| <b>Key Macroeconomic Assumptions Underlying Baseline</b>                     |        |       |       |       |       |             |       |       |       |       |       |       |       |      |      |      |      |       |      |      |  |
| Real GDP growth (in percent)   | 2.5    | 1.4   | 3.0   | 1.2   | 5.6   | 2.0         | 3.5   | 5.1   | 4.0   | 2.2   | 1.5   | 2.0   | 1.8   | 1.6  | 1.6  | 1.5  | 1.5  | 1.5   | 1.6  |      |  |
| GDP deflator in US dollars (change in percent)                               | 19.6   | 16.9  | 17.2  | 8.8   | 14.9  | 22.6        | -29.7 | 8.9   | 4.3   | 0.5   | 0.2   | 1.9   | 1.6   | 1.7  | 1.5  | 1.5  | 1.7  | 1.6   | 1.8  |      |  |
| Nominal external interest rate (in percent)                                  | 7.9    | 5.1   | 4.2   | 5.3   | 6.3   | 5.6         | 8.5   | 8.0   | 8.1   | 8.0   | 7.7   | 8.3   | 8.1   | 8.1  | 7.9  | 8.0  | 8.3  | 9.0   | 8.2  |      |  |
| Growth of exports (US dollar terms, in percent)                              | 26.6   | 33.2  | 25.7  | 5.6   | 21.8  | 32.9        | -43.0 | 19.6  | 8.9   | -1.3  | -3.1  | 1.6   | 1.5   | 1.2  | 1.1  | 1.0  | 1.0  | 1.0   | 1.2  |      |  |
| Growth of imports (US dollar terms, in percent)                              | 11.0   | 22.1  | 4.5   | 18.3  | 27.1  | 26.1        | -14.8 | 12.5  | 6.5   | 4.4   | 1.2   | 3.9   | 4.5   | 4.1  | 4.2  | 4.0  | -1.1 | 0.3   | 5.3  |      |  |
| Current account balance, excluding interest payments                         | 13.5   | 13.6  | 24.6  | 14.5  | 17.2  | 18.4        | 3.0   | 5.1   | 6.3   | 4.4   | 3.1   | 3.6   | 3.0   | 2.4  | 1.6  | 1.0  | 2.3  | 2.6   | 0.0  |      |  |
| Net non-debt creating capital inflows  | 4.4    | 4.6   | 0.0   | 7.7   | 11.9  | 6.3         | 7.4   | 8.3   | 10.5  | 8.6   | 8.7   | 7.6   | 7.7   | 7.7  | 7.7  | 7.7  | 7.8  | 7.7   | 7.6  |      |  |

<sup>1</sup> Derived as  $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $r$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,

$e$  = nominal appreciation (increase in dollar value of domestic currency), and  $a$  = share of domestic-currency denominated debt in total external debt.

<sup>2</sup> The contribution from price and exchange rate changes is defined as  $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$  times previous period debt stock.  $r$  increases with an appreciating domestic currency ( $e > 0$ ) and rising inflation (based on GDP deflator).

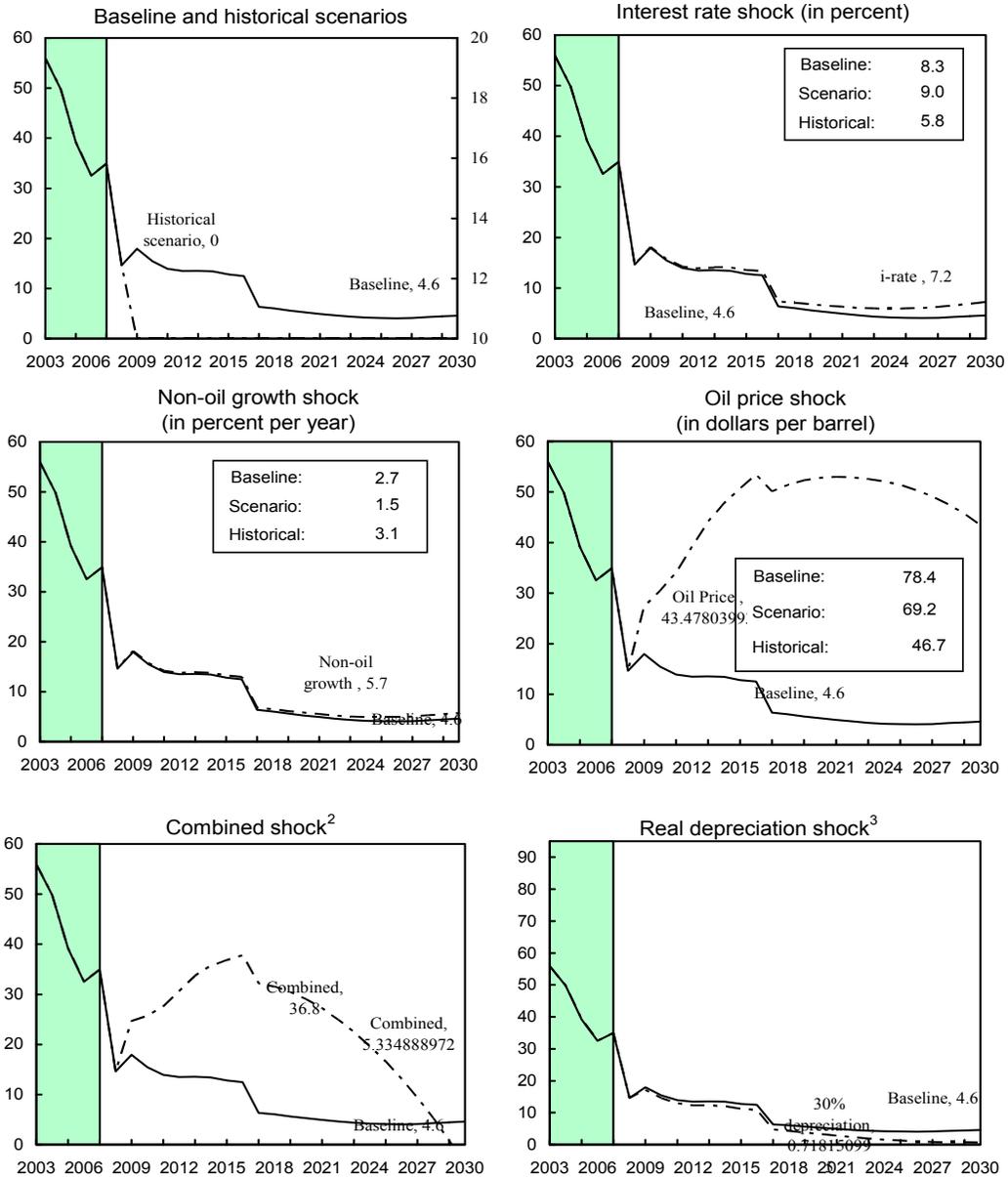
<sup>3</sup> For projection, line includes the impact of price and exchange rate changes.

<sup>4</sup> Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

<sup>5</sup> The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

<sup>6</sup> Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Gabon: External Debt Sustainability: Bound Tests'  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

<sup>1</sup> Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Six-year historical average for the variable is also shown.

<sup>2</sup> Permanent 1/4 standard deviation shocks applied to real interest rate, non-oil growth rate, and oil price (current account balance).

<sup>3</sup> One-time real depreciation of 30 percent occurs in 2009.

**ATTACHMENT I—LETTER OF INTENT**

Libreville, February 17, 2009

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, D.C., 20431

Dear Mr. Strauss-Kahn:

1. This letter updates the letter of April 15, 2007 presenting the Stand-by Arrangement approved by the Executive Board of the International Monetary Fund on May 7, 2007, and the December 7, 2007 letter delivered under the first program review. The government hereby reiterates its commitment to pursuing the economic reforms and policies to ensure macroeconomic stability, achieve sustainable growth, and reduce poverty in Gabon. This letter reports on performance under the program since the first review and government policy intentions for 2009, including contingent measures in the event the global financial situation has a particularly adverse impact on Gabon.
2. Economic growth was robust in 2007 and the first half of 2008. Non-oil real GDP recorded growth of 6.2 percent in 2007 and the petroleum sector returned to growth (3.4 percent). Growth slowed down in the latter months of 2008, due primarily to the weakening global economy, which has hit our important manganese and timber sectors particularly hard. Non-oil real GDP increased 3.0 percent, while the petroleum sector declined by 1.2 percent, mainly due to delays in bringing new fields into production. Inflation rose to 5.9 percent at-end 2007 on an end period basis, under the combined effect of a 26 percent adjustment in fuel prices in March 2007, the increase in prices of imported foods, and the pressure of domestic demand. Inflation declined somewhat in 2008, with end-year inflation of 5.6 percent, as food price inflation remained high.
3. Gabon's external position has been strong and the BOP in surplus. However, Gabon's contribution to the BEAC's international reserves has fallen short of projections despite the surge in oil revenue. This situation reflects a larger-than-anticipated non-oil deficit and a reduction in net banking system credit to the government that fell well short of projections. In January 2008, Gabon retired the bulk of its debt to Paris Club member creditors. This repayment, which amounted to US\$1.6 billion, was financed by issues of eurobonds (US\$1 billion) and bonds on the CEMAC market (CFAF 81.5 billion), with the rest covered by the budget surplus (CFAF 215 billion).
4. The tightening of macroeconomic policies was not as substantial as anticipated in 2007 and 2008. The non-oil primary deficit moved from 18.0 percent of non-oil GDP in 2006 to 13.8 percent in 2008, but it is still 3.8 percent higher than the initial objective for 2008.

This is primarily attributable to overruns in fourth quarter 2007 and 2008 in current expenditure, a shortfall in non-oil revenue in late 2008, and a decision to accelerate spending on high priority capital projects. In particular, fuel price subsidies were significantly higher than planned as a result of the hike in international oil prices and the absence of adjustment in domestic prices since the increase in March 2007.

5. The decline in net bank credit to the government in 2007 fell well short of projections, if one excludes the amount of the Eurobond which was temporarily credited to an account in a bank in Gabon, prior to being used to finance the buyback of debt owed to Paris Club member creditors in January 2008. In addition to a lower-than-anticipated budget surplus, the smaller decline is attributable to significant payments on outstanding payment orders from the previous fiscal year, the assumption and repayment by the government of debts of public enterprises undergoing privatization or restructuring, as well as financing of deficits of local governments. However, the program ceilings on the stock of net bank credit to the government for March and June 2008 were met.

6. A major step forward was taken with the implementation of the oil revenue model in February 2008. The model is proving to be a very useful tool, enabling the government to more effectively manage the various flows of oil revenues, and to better assess the impact on government revenues resulting from new or renegotiated contracts with oil companies. The model is being continuously recalibrated in light of the outturns and evaluated on a regular basis.

7. Transparency in the management of oil and mining revenues has also been strengthened with the March 2008 publication of the 2006 report on the Extractive Industries Transparency Initiative (EITI). The report identifies and compares payments reported by the central government and the oil companies. The government has reconciled the oil revenues recorded in the fiscal reporting table (TOFE) and in the EITI report.

8. The efforts made to improve budget transparency and to strengthen the budget monitoring system are continuing. The functional classification of all central government expenditures is being completed and will be fully incorporated in the 2010 budget. To enhance the effectiveness and quality of government expenditure, the government raised the share of public contracts awarded on a competitive basis to 60 percent in 2007, compared to a target of 50 percent. A comprehensive PRSP-based medium-term expenditure framework (MTEF) was prepared and has enabled the government to improve the preparation of the current and capital budgets, although all sectoral frameworks are not yet available.

9. The government prepared by November 2008 an action plan which specifies the costs, the service levels, and the sources of financing for universal health insurance and social services. Health insurance outlays for lower-income Gabonese, estimated at 30.4 billion CFA in 2009, will be financed by the state, the costs being partially covered by a 10 percent turnover tax on mobile phone operators, initiated in 2008, and a tax on non-bank

outbound money transfers starting in 2009. These taxes will be accounted as central government revenues, and the government subsidies included in central government expenditures. Health insurance for the private sector and government employees will be fully funded by employers' contributions and wage contributions. We now recognize that the tax on outbound money transfers constitutes an exchange restriction. It was never our intent to introduce such a restriction. We will amend the tax in the context of our forthcoming budget amendment—which we intend to submit to Parliament by early 2009—to eliminate the exchange restriction, and will consult with the Fund staff regarding this tax amendment.

10. The list of projects selected for the 2008 Independence Day Celebration (*Fêtes tournantes*) as well as estimates of their cost were subject to budget procedures and have been published in June 2008 in the national press. The final audit report of the oil refinery, SOGARA, was completed only in August 2008.

11. Overall, the government has been faced with major difficulties in implementing the program during the period under review. The quantitative performance criteria (PC) on the non-oil primary deficit (NOPD) for end-December 2007 and end-March and end-June 2008 went unmet, as well as the end-June PC on the contracts of new external debt. In addition, two out of four structural criteria had not been observed: the criteria pertaining to the adjustment of petroleum product prices and to the implementation of the automatic mechanism for adjusting the prices of petroleum products (Tables 1 and 2). The government ran into difficulties in ensuring the timely implementation of other structural measures, as indicated in Table 2. Five of nine structural benchmarks were implemented late.

12. To prevent future delays and strengthen program implementation, the government has reactivated the interministerial monitoring committee chaired by the Minister of Finance, which will meet monthly to ensure that program implementation stays on track. After the committee's meetings, a report will be prepared and submitted to the Council of Ministers. The interministerial committee will be assisted by a technical committee chaired by a member of the office of the minister of finance, and whose other members will be the main officials in charge of revenue collection and of the execution of the budget. Each month, the technical committee will assess the consistency of the three-month rolling cash-flow budget with the program. The government accounts will reflect the major classes of revenue and types of expenditure; it will also include data tracking expenditures from commitments to disbursements. This plan, accompanied by a memorandum (*note de commentaire*), will be posted monthly on the Ministry of Finance website. Furthermore, the government will publish a monthly report on the execution of the budget within 60 days.

#### **A. Macroeconomic Assumptions for 2009**

13. The global financial crisis and resulting economic slowdown have severely impacted Gabon's economic prospects for 2009, with our three main industries—oil, manganese, and lumber—all experiencing either sharply falling prices or sharply declining output, or both.

The macroeconomic framework for 2009 has been revised to take account of these developments. In particular, growth in oil production was revised downward from our previous projection of 11.9 percent to 7.8 percent, to reflect likely delays in plans for bringing marginal oil fields on stream and boosting productivity in mature fields. Real non-oil GDP growth is expected to decelerate further to 2.3 percent, with manganese production expected to decline by 13 percent, and timber production by over 14 percent. The GDP deflator is expected to decline by 24 percent due to the fall in prices of crude oil and manganese. Annual average inflation is projected to decline to 3.5 percent.

### **B. The 2009 Budget**

14. The government is mindful of the urgent need to press ahead with implementation of a strong economic program to make the economy less dependent on oil, ensure budget and debt sustainability, maintain high non-oil GDP growth, and reduce poverty. However, the rapid declines in global demand for our key export products have greatly complicated our budget process. Consistent with our program objectives, the government has passed a budget which aimed to bring the non-oil primary deficit from 13.8 percent of non-oil GDP in 2008 to 9.2 percent in 2009. However, this budget was drafted when oil prices were projected to average around US\$67 in 2009, and when prospects for manganese and timber looked more promising. The slowdown in timber and manganese is likely to increase our non-oil primary deficit to at least 11.8 percent of non-oil GDP.

15. We are reluctant to revise the budget so soon after its passage, and we do not want to respond to this slowdown in demand with contractionary fiscal measures. So for now, we will leave the budget unchanged, and accept the deterioration in the NOPD to 11.8 percent of non-oil GDP.

16. Key measures in the 2009 budget, designed to help achieve our deficit objective, include the improved valuation of manganese exports for tax purposes; reduced spending on goods and services; restraints on non-oil related subsidies; and the reduction of subsidies on oil products to CFA 8 billion (just under 0.3 percent of non-oil GDP). In early 2009, the risk of spreading social tensions, notably in the education sector, led the government to increase allowances for civil servants and hence the wage bill by the equivalent of 1 percent of non-oil GDP. To ensure that this does not increase our deficit, we have cut selected goods, services and transfers by 10 percent relative to the approved budget, and have cut capital spending by CFAF 10 billion. These revisions to the 2009 budget will be submitted to Parliament for formal endorsement very soon.

17. To ensure oil product subsidies do not increase, we have introduced an automatic fuel price adjustment mechanism, effective January 2009. This mechanism has been adopted by the Council of Ministers, and announced publicly. The government is undertaking extensive outreach, to ensure the public understands both the mechanism and its rationale. The mechanism involves monthly adjustment of ex-refinery prices for all domestic oil prices,

intended to keep them in line with the three month moving average of import parity prices. As a transition measure—to avoid prices increases that might be called for based on average import prices of the past three months, but which would not be justified based on today's prices—for the first two months of 2009, we have adjusted prices in line with the current month's import parity.

18. Except for two products that are particularly important for the poor— kerosene and butane—the monthly adjustments in ex-refinery prices will be fully reflected in adjustments of prices at the pump, and the current price structure will be maintained. We will subsidize the prices at the pump of kerosene and butane to avoid the full pass through of ex-refinery prices to the consumer. However, we will cap the subsidies at not more than the CFAF 8 billion we have budgeted, and that means retail prices of these products are likely to increase somewhat in 2009 as well. Indeed, on February 1 we increased the retail price of kerosene by 12 percent. Going forward, we will evaluate the retail prices of kerosene and butane on a monthly basis, in light of the three month moving average of their import parity, and adjust the prices as necessary to keep the annual subsidy in line with the budget. Starting with the 2010 budget, we will seek to eliminate these subsidies altogether and replace them by measures better-targeted to the poor. We aim to complete by September 2009 a detailed analysis of the impact on the poor based on the recent household survey and elaborate a strategy for the way forward.

19. In addition to fuel price subsidies, we have also traditionally given the refinery company, SOGARA, production subsidies, which have been necessitated by production inefficiencies of the company. Following an independent audit of SOGARA, the government is working with the other shareholders of SOGARA to develop a concrete program to restructure the company, enhance its efficiency and eliminate the need for production subsidies. In addition to the change of the management team, new investment may be necessary to make the refinery profitable, with a possible increase of shareholder capital. While these production subsidies will need to continue unchanged for 2009 and 2010, they will be significantly reduced in 2011 and eliminated thereafter.

20. The budget also incorporates the following policies:

- A renewal of the measures introduced in 2008 to help the vulnerable deal with the high costs of food (CFAF 28 billion excluding tax expenditures), and additional outlays of CFA 16 billion on social spending targeted to the most vulnerable, to offset the impact of rising energy prices in 2009 and declining employment as a result of the weakness, in particular, of the timber industry.
- More realistic appropriations for spending on certain current expenditures, especially public utility services, to avoid accumulation of arrears and debt.

- An increase in capital expenditures on high priority social projects and infrastructures.

### **C. Contingency Measures**

21. As noted above, it now appears likely that oil and manganese prices, as well as manganese and timber volumes, will be significantly lower than assumed in the 2009 budget, and that this will likely increase our non-oil primary deficit to 11.8 percent of non-oil GDP. We are committed to keeping the non-oil primary deficit to not more than 11.8 percent of non-oil GDP. However, we recognize the very real prospect that even our current economic assumptions may prove too optimistic, particularly with regard to the price of oil. While we think it would be unwise to amend our budget now, on the basis of this possibility, we think it would be equally unwise not to prepare for that eventuality. Thus, we will monitor economic developments closely, and have begun to prepare contingency plans to be implemented in the event that the economic developments deteriorate significantly relative to our budget assumptions.

22. Specifically, we have instructed line ministries that, for the first six months of 2009, only 33 percent of their annual budgets will be made available. This compares to an average spending in recent years of 43 percent of the annual budget in that time period. We have also instructed them to identify additional possible expenditure cuts, equal to 10 percent of their revised 2009 budget allocation, which could be implemented if revenue developments warrant this.

23. As we implement any necessary expenditures cuts, we will ensure they are in line with our Poverty Reduction Strategy, as well as with our related Medium-Term Expenditure Framework and Priority Action Plan. We will look for cuts primarily in the areas of goods and services, transfers and subsidies. Cuts in investment plans will be a last resort, while we will seek to preserve poverty-related spending. We will monitor economic and revenue developments closely, and consult with Fund staff—not later than at the time of the fourth review of our SBA, but earlier if warranted—on measures to keep our budget in line with our objectives and the program target.

### **D. Medium Term Fiscal Plans**

24. While the 2009 deficit will now be larger than we had previously planned, we remain committed to our target of achieving an NOPD of not more than 6 percent of non-oil GDP by 2011. To make that happen, efforts will be intensified to increase the efficiency of public expenditure. In particular, the Public Expenditure Management and Financial Accountability Review<sup>1</sup> (PEMFAR) suggestions to improve the efficiency of public spending will be taken

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<sup>1</sup> World Bank document, September 2006.

into account. Further, the diversification commission will be urged to deliver a concrete and realistic roadmap to create opportunities in the non-primary tradable sectors.

### **E. Reforms of public finance management**

25. The government will continue to implement its program to reform public financial management, with a view to increasing budget coverage and strengthening revenue and expenditure management. On revenue management, the government will elaborate a medium-term action plan for implementing the recommendations of the September Fund TA mission on revenue and customs administration reforms. Our priorities will be to expand the tax base to better cover medium and small firms as well as the informal sector. Moreover, we will continue our efforts to improve the LTU and valuation of imports. Particular attention will be given to an adjustment of manganese mercurial values to international prices, as well as to ensuring that tax settlements related to any difference between the mercurial and actual transaction values are closely monitored and received on time. We will also seek to enhance control of and information about tax exemptions. By end-September 2009, we will complete a comprehensive review of all discretionary PIT and VAT exemptions, including a plan for the elimination of these exemptions. As the first stage of this plan, the 2010 budget will see a reduction in the CFAF value of specific exemptions accorded without legal basis by at least 30 percent.

26. Efforts will also continue to strengthen transparency and coverage in oil-revenue administration. In particular, the government will seek to reduce the discrepancies between different accounts of oil revenue. The model's estimates will be published on a regular basis. Efforts will also be made to show more details on oil receipts, such as profit oil received by the government in kind, in future EITI reports. The 2007 report is expected to be published by June 2009 and the 2008 report by December 2009. A reconciliation of the various accounts of oil revenue (TOFE, EITI, Model estimates) will also be provided at that time. In addition, starting with the first quarter of 2009, we aim to produce—with no more than a one quarter lag—a comparison and explanation of any differences between oil revenues as estimated by the model and those reported in the TOFE.

27. The list of projects selected for the 2008 Independence Day Celebration (*Fêtes tournantes*) as well as estimates of their cost were subject to budget procedures and have been published in June 2008 in the national press, and the list for the 2009 *Fêtes tournantes* has been published in January this year to ensure projects will be subject to regular budget procedures. To strengthen planning, we have identified the affected provinces through 2012 to allow identification of projects to be financed ahead of time. In addition, we intend to select, by end-April 2009, an external auditor to audit all government expenditures on the 2006, 2007, and 2008 *Fêtes tournantes*.

28. A medium-term expenditure framework (MTEF) including consistent sectoral programs will be developed by June 2009 and utilized to prepare the 2010 budget.

Furthermore, 2008 has seen important progress toward a full functional classification of current and capital expenditure in preparation of the 2010 budget. The 2009 budget included a more thorough estimate of tax expenditures than was the case in 2008 and a summary budget execution report for 2007. Monthly budget execution reports will be posted on the web, starting with the report for February 2009, with a lag of no more than one month. In addition, starting in 2010, we will reduce the share of single-source government contracts to below 30 percent of the total value of all contracts submitted to the public procurement office. Finally, building on our progress to date, we intend to reduce the Treasury payment period from 60 days to 30 days, by end-June 2009.

29. The government will reduce expenditures funded with budgetary advances or lacking prior authorization. Budget appropriations will be transferred in accordance with the procedures and limits specified by law. Any overrun justified by essential needs or any shortfall in revenues will be offset by reductions in specific budget line items. These changes will be reflected in the cash management plan and approved by the interministerial program monitoring committee. Moreover, we will continue the work on integrating the special accounts in the budget.

30. The government will enhance the transparency of financial relationships between the public entities and enterprises on the one hand, and the State on the other hand. We established in October 2008 a national committee on public debt (CNEP), chaired by the Minister of Finance. The committee is charged with elaborating a public debt strategy aligned with our PRSP, coordination of this policy with monetary and fiscal objectives, analysis of debt sustainability, and establishment of conforming ceilings on newly contracted debt. Starting in 2009, the CNEP will also monitor the assumption by the government of debts of public enterprises undergoing privatization or restructuring, and will ensure the coordination of related repayment schedules with budget objectives. The increase in government liabilities arising from debt assumptions will be explicitly recognized as capital transfers starting with the 2009 monthly TOFE and in the 2010 budget. In addition, the government will prepare by October 2009 an audit of cross-debts with these institutions and of cumulative arrears vis-à-vis third parties. The financing by the government of deficits of local governments will be explicitly recognized as additional transfers, again starting with the 2009 monthly TOFE and the 2010 budget. The financial statements of the public entities and enterprises as well as the budgets of local governments will be consolidated after their verification in order to ensure that the authorities can prepare a TOFE for the entire public sector by 2010.

31. The Central Deposit Holding Agency (*Agence centrale comptable de dépôts*, or ACCD), established within the Treasury in 2007, became operational in 2008. The ACCD is a senior accounting entity (*poste comptable principal*) of the Treasury, specializing in operations for the centralization and management of deposits of the central government and for making certain payments, including of salaries, pensions and stipends. Most government accounts with commercial banks have been closed and consolidated into one centralized

Treasury account at the BEAC, which also includes the funds managed by the ACCD; the remaining accounts are in the process of being consolidated. To ensure transparency in central government financing, the government will keep the funds managed by the ACCD in a sub-account at the BEAC. Starting with the December 2008 TOFE, treasury cash and deposits at the BEAC will be consolidated to include cash of the ACCD, as well as the outstanding amounts on the ACCD account.

32. Finally, while we had committed to start publishing monthly reports on our budget execution beginning January 2008, we have had problems designing an appropriate reporting format. With help from AFRITAC, we have now decided to start publishing consolidated monthly reports, beginning with February 2009. Based on the initial experience with these reports, we will review the format and level of detail in these reports later this year, and revise the reporting format as appropriate.

#### **F. Growth-oriented reforms and other issues**

33. Recognizing that accelerated and sustained growth in non-oil GDP is critical to Gabon's long-term economic progress, the government is accelerating its program to build the country's infrastructure and promote diversification. A new National Diversification Commission has been created to oversee this program, and the budget appropriations for capital spending have been raised from 8.9 percent of non-oil GDP in 2007 to 9.4 percent in 2008 and 10.1 percent in 2009.

34. The privatization program is continuing. The procedure for the final disposal of the State's majority holding in Gabon Telecom has been settled, and the audit of the 2006 financial statements showing that Gabon Telecom had incurred heavy losses was published on the internet site of the Ministry of Finance. To strengthen the financial situation of the new enterprise, the government has taken responsibility for the new restructuring plan (*plan social*) amounting to CFAF 27.5 billion. This amount is included in the TOFE under restructuring expenditures. The commission appointed to solve the problems pertaining to the concession with Société d'électricité et d'eaux du Gabon (SEEG) is continuing its work. Furthermore, following an agreement with SEEG, the electricity tariffs will be increased by 3 percent in January 2008, and a cumulative 15 percent during 2009. The price controls implemented in September 2007 on a limited number of products were lifted in March 2008.

35. We recognize that our privatization program, while successful in many respects, has not contributed meaningfully to increasing competition and efficiency in the Gabonese economy. During 2009, we will launch a comprehensive review of our privatization experience, seeking ways to enhance competition in our market place. Among other factors, we will consider gradually eliminating private monopolies, as well as import bans and licensing requirements, as soon as possible in line with our legal obligations.

36. The government will work to reduce the level of the CEMAC common external tariffs, and to eliminate the distortions encountered among the rates applied by the various

countries in the zone which handicap the private sector. The negotiations on economic partnership agreements with the EU are continuing at the CEMAC level. The successful conclusion of these negotiations would make it possible to reduce the import duties currently imposed on exports from Gabon (e.g., timber) to the EU.

37. The government will pursue its efforts to promote an enabling environment for the development of the financial sector. We will continue to support the regional supervisory authorities in their efforts to ensure that banks comply with prudential ratios. The authorities have worked with other CEMAC governments to bring about the abolition of BEAC statutory advances effective January 1, 2009, and will press ahead with the implementation of a regional Treasury bond market. In this context, authorities will work with other CEMAC countries to clarify the tax and prudential treatment of government bonds. At the same time, the government has eliminated the requirement that banks subscribe for development bond issues at a rate of 10 percent of their deposits.

38. We recognize the importance of strengthening our national statistics, and have launched a comprehensive effort to accomplish that. In particular, we are in the process of drafting a statistics law, and are committed to having the law adopted by the government and submitted to parliament before the end of 2009.

39. The government believes the policies described in this letter are adequate to achieve the program objectives. It is prepared, however, to take any additional measures that may be considered necessary, in consultation with IMF staff.

40. On the basis of the package of measures referred to above, which should serve to correct the difficulties encountered in implementing the program, the government is requesting waivers for nonobservance of performance criteria and is also asking for the combined completion of the second and third program review. The attached tables indicate the quantitative and structural criteria for 2009. We request that the end-March and end-June 2009 targets be established as performance criteria; that the fourth review be conducted in August 2009 on the basis of our end-June performance, and that the fifth and final review be conducted in February 2010 on the basis of our end-December performance. In addition, we propose that, in the context of the fourth review, the government engage the Fund in a comprehensive review of the 2009 budget, in light of global and domestic economic developments in the first half of 2009. The government intends to continue to treat the arrangement as precautionary and to make no drawings.

Sincerely yours,

/s/

Blaise Louembé  
Minister of Finance, Budget, and Privatization

**Table 1. Gabon: Quantitative Performance Criteria for the SBA, end-2007 and March and June, 2008**

(Billions of CFA francs; end-period data)

|   | 2007   |            |        |         |        | 2008       |        |         |        |            |        |         |
|---|--|------------|--------|---------|--------|------------|--------|---------|--------|------------|--------|---------|
|   | Dec.   |            | Actual | Status  | Mar.   |            |        | Jun.    |        |            |        |         |
|   | Prog.  | Adj. Prog. |        |         | Prog.  | Adj. Prog. | Actual | Status  | Prog.  | Adj. Prog. | Actual | Status  |
| Performance criteria <sup>1</sup>   | (Cumulative flows from January 1st of each year, unless otherwise noted) |            |        |         |        |            |        |         |        |            |        |         |
| Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) <sup>2</sup> | -314.1   | -319.7     | -368.8 | not met | -68.9  | -68.9      | -97.0  | not met | -117.5 | -117.5     | -158.6 | not met |
| Ceiling on the stock of net claims of the banking system on the central government <sup>3</sup>                             | -191.1   | -176.6     | -491.0 | met     | -260.2 | 360.0      | 73.6   | met     | -385.1 | 198.1      | -59.0  | met     |
| Ceiling on the contracting or guaranteeing of new external debt by the central government <sup>4</sup>                      | 165.2  | 610.4      | 521.2  | met     | 190.3  | 190.3      | 58.0   | met     | 247.7  | 247.7      | 311.1  | not met |
| Ceiling on the accumulation of external payment arrears by the central government <sup>5</sup>                              | 0.0  | 0.0        | 0.0    | met     | 0.0    | 0.0        | 0.0    | met     | 0.0    | 0.0        | 0.0    | met     |
| Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government                        | 0.0  | 0.0        | 0.0    | met     | 0.0    | 0.0        | 0.0    | met     | 0.0    | 0.0        | 0.0    | met     |

Sources: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Detailed definitions of the performance criteria are provided in the Technical Memorandum of Understanding in Country Report 07/174.

<sup>2</sup> The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

<sup>3</sup> The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service, payments of domestic debt service, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). Upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*).

<sup>4</sup> This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral creditors.

<sup>5</sup> The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

**Table 1 (Cont.). Gabon: Quantitative Performance Criteria and Indicative Targets for the SBA, end-2008 and 2009**

(Billions of CFA francs; end-period data)

|  | 2008               | 2009  |                 |                           |                           |
|--|--------------------|---|-----------------|---------------------------|---------------------------|
|  | Dec.<br>Projection | Mar.<br>Program   | Jun.<br>Program | Sep.<br>Indicative target | Dec.<br>Indicative target |
| Performance criteria <sup>1</sup>  |                    | (Cumulative flows from January 1st, unless otherwise noted) |                 |                           |                           |
| Floor on the primary fiscal balance, excluding oil revenue, restructuring costs, and capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation (on a payments order basis) <sup>2</sup> | -432.0             | -93.6   | -163.9          | -273.9                    | -367.6                    |
| Ceiling on the stock of net claims of the banking system on the central government <sup>3</sup>  | -270.0             | -199.6  | -202.7          | -191.4                    | -192.6                    |
| Ceiling on the contracting or guaranteeing of new external debt by the central government <sup>4</sup>   | 345.9              | 222.9   | 284.2           | 300.0                     | 334.4                     |
| Ceiling on the accumulation of external payment arrears by the central government <sup>5</sup>   | 0.0                | 0.0   | 0.0             | 0.0                       | 0.0                       |
| Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government   | 0.0                | 0.0   | 0.0             | 0.0                       | 0.0                       |

Sources: Gabonese authorities and IMF staff estimates and projections.

<sup>1</sup> Detailed definitions of the performance criteria are provided in the attached Technical Memorandum of Understanding.

<sup>2</sup> The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

<sup>3</sup> The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service net of new external debt issues, payments of domestic debt service net of new domestic debt issues and financing received on account of the float on accounts at the Agence Comptable Centrale des Depots, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). Upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*) and government bonds issued on the CEMAC market.

<sup>4</sup> This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback that could be concluded with Gabon's bilateral creditors.

<sup>5</sup> The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

**Table 2. Gabon: Structural Measures under the SBA**

| Test date <sup>1</sup>          | Actions   | Current situation   | PC or Benchmark      |
|---------------------------------|---|---|----------------------|
| <b>Second and Third Reviews</b> |   |   |                      |
| Dec-07                          | Present to parliament a 2008 budget that includes in the accompanying economic and financial report, (i) summary budget execution reports for 2005-06 and estimates for 2007; and (ii) an annex with estimates of all tax expenditures by type of tax.  | <b>Observed</b> , although further clarifications needed on tax expenditure estimates                                       | <b>PC</b>            |
|                                 | Subject all 2007 capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.  | <b>Observed</b>   | <b>Continuous PC</b> |
| Feb-08                          | Make operational the oil-revenue projection model that links oil revenue to production, prices, costs, and physical parameters on a contract-by-contract basis, apply it to evaluate oil revenue payments collected by the Treasury in 2007, and identify reasons for discrepancies in realized oil revenues. | <b>Observed</b> , although reasons for differences between actual and estimated revenue in 2007 need further clarification. | <b>PC</b>            |
| Mar-08                          | Adjust ex-refinery fuel product prices to reflect the changes in import parity prices, as calculated for the purpose of the automatic adjustment formula, since September 2007.   | <b>Not observed</b>   | <b>PC</b>            |
|                                 | Starting in April 2008, apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.  | <b>Not observed</b>   | <b>Continuous PC</b> |
| Dec-07                          | Publish the list of projects of the 2008 <i>fêtes tournantes</i> in the national press.   | <b>Observed with delay.</b> The list was published end June.  | <b>Benchmark</b>     |
| Dec-07                          | Prepare a comprehensive government asset and liability management strategy.   | <b>Partially met end-May.</b> The strategy provided by the authorities is too general and lacks specifics.                  | <b>Benchmark</b>     |
| Dec-07                          | Develop a three-year, rolling medium-term expenditure framework including consistent sectoral programs for 2008-10.   | <b>Not observed.</b> A global framework has been developed but consistent sectoral frameworks are not yet ready.            | <b>Benchmark</b>     |
| Dec-07                          | Reduce the Treasury payment period to 60 days and announce it on the Treasury Web site.   | <b>Observed</b>   | <b>Benchmark</b>     |
| Dec-07                          | Prepare monthly budget execution reports with a maximum lag of two months.  | <b>Not observed</b>   | <b>Benchmark</b>     |
| Dec-07                          | Reduce the proportion of government procurement contracts awarded on a single-source basis on exceptional grounds to below 50 percent of the total value of contracts submitted to the public procurement office.   | <b>Observed</b>   | <b>Benchmark</b>     |
| Dec-07                          | Publish the Official Gazette on the Internet.   | <b>Observed with delay.</b> The contents of the Official Gazette were published in June.                                    | <b>Benchmark</b>     |
| Apr-08                          | Complete the audit of SOGARA.   | <b>Observed with delay.</b> A preliminary audit report was made available in August.  | <b>Benchmark</b>     |
| Apr-08                          | Prepare an action plan and a cost estimate for implementing the health insurance and social security system.  | <b>Observed with delay.</b> Documents prepared end June.  | <b>Benchmark</b>     |

(continued on next page)

<sup>1</sup> Unless otherwise specified, all dates refer to the end of the month.

**Table 2 (Cont.). Gabon: Structural Measures under the SBA**

| Test date <sup>1</sup> | Actions  | Current situation | Objective                                    | PC or Benchmark      |
|------------------------|--|-------------------|--|----------------------|
|                        | Apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.   |                   | Ensure fuel price subsidies do not increase  | <b>Continuous PC</b> |
|                        | Subject all capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.  |                   |  | <b>Continuous PC</b> |
| <b>Fourth Review</b>   |  |                   |  |                      |
| Mar-09                 | Publish the list of projects of the 2009 <i>fêtes tournantes</i> in the national press.  |                   | Promote transparency and good governance     | <b>Benchmark</b>     |
| Apr-09                 | Select an external auditor to audit the government spending on the 2006, 2007, and 2008 <i>fêtes tournantes</i> .  |                   | Promote transparency and good governance     | <b>Benchmark</b>     |
| Jun-09                 | Reduce Treasury payment period to 30 days.   |                   | Promote efficiency and effectiveness         | <b>Benchmark</b>     |
| Jun-09                 | Publish quarterly reports (starting with the first quarter 2009 with 1 quarter lag) of oil revenue outturns as estimated by the oil revenue model and as shown in the TOFE, including explanations of discrepancies between these estimates. |                   | Promote transparency and good governance     | <b>Benchmark</b>     |
| <b>Fifth Review</b>    |  |                   |  |                      |
| Sep-09                 | Prepare a comprehensive review of all VAT and PIT tax exemptions, with the objective of curtailing their scope significantly.  |                   | Broaden the tax base, and reduce distortions | <b>Benchmark</b>     |
| Dec-09                 | Reduce the amount of tax exemptions in the 2010 budget by 25 percent.  |                   | Broaden the tax base, and reduce distortions | <b>Benchmark</b>     |
| Dec-09                 | Reduce the proportion of single-source government procurement contracts awarded on a single-source basis on exceptional grounds to below 30 percent of the total value of contracts submitted to the public procurement office.              |                   | Promote transparency and competition         | <b>Benchmark</b>     |
| Dec-09                 | Adopt a statistics law by the government and submit it to parliament.  |                   | Strengthening national accounts statistics   | <b>Benchmark</b>     |

<sup>1</sup> Unless otherwise specified, all dates refer to the end of the month.

## ATTACHMENT II—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum supplements the letter of the Minister of Finance, Budget, and Privatization dated February 17, 2009 (the “February 2009 Letter”). The memorandum updates and replaces the technical memorandum of understanding included in the IMF Board document for the May 2007 Stand-by Arrangement (Country Report 07/174). It spells out the understandings for the monitoring of program implementation, and the reporting requirements for the period January 2009–March 2010. In this context, it defines (a) the quantitative performance criteria; (b) the structural performance criteria and benchmarks; (c) the adjusters for the quantitative performance criteria; and (d) the key assumptions used in the formulation of the program for 2009–10 presented in the February 2009 Letter.

### A. Monitoring of Program Implementation

2. Monitoring of the implementation of the program will be made on the basis of an assessment of the observance of quarterly quantitative performance criteria as well as of the structural performance criteria and benchmarks at specified dates.

### B. Quantitative and Structural Performance Criteria, Definition, Computation and Adjusters

#### Quantitative performance criteria

3. The quantitative performance criteria are specified in Table 1 of the MEFP. The quantitative performance criteria are the following:

- a floor on the primary fiscal balance of the central government on a payments order basis, excluding: (i) oil revenue; (ii) restructuring costs posted as “financing”; (iii) capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation;
- a ceiling on the net claims of the banking system on the central government;
- a zero limit on the accumulation of external payments arrears by the central government (a continuous performance criterion);
- a zero limit on the accumulation of arrears on central government domestic liabilities;
- a ceiling on new external debt contracted or guaranteed by the government with original maturities of more than one year;

4. The program includes adjusters for the quantitative performance criteria as specified in paragraph 16 below and summarized in footnotes 2, 3 and 4 of Table 1 of the letter of intent.

## Definitions and computation

5. For the purpose of this TMU, the term “central government” covers all agencies, institutions, and special funds (including the Road Fund), the operations of which fall under the definition of 'Central Government' in the IMF's Government Finance Statistics Manual, 2001, paragraphs 2.48-50. The authorities will inform the Fund staff of any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be incorporated within the definition of central government.

6. **The non-oil primary fiscal balance**, on a payment order basis (*ordonnancements*), is defined as the difference between (a) total central government revenue on a cash basis (excluding oil revenue); and (b) total central government expenditure on a payment order basis (*ordonnancements*) excluding interest payments.

7. **Total central government revenue** is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against central government obligations to the private sector. Tax receipts are specified in the Table of central government financial operations (*Tableau des opérations financières de l'Etat-TOFE*), including all earmarked revenues (Road Fund and special funds). Oil revenue includes payments received in cash and in crude. Oil revenue under PID (*provisions pour investissements diversifiés*) and PIH (*provisions pour investissement en hydrocarbures*), which have so far been excluded from reporting in budget documents will be included once they become available. Revenue received by the treasury will be registered after encashment, which will be at most 7 days after the date of receipt; oil revenue received in kind will be recorded at transaction value on the day of sale.

8. **Total central government expenditure** includes spending on a payment order basis (*ordonnancements*), and treasury advances (*avances à régulariser*), and outlays on special funds and from earmarked revenues. Starting with the January 2009 TOFE, the following types of government expenditures would be recognized in the TOFE presentation (in addition to existing expenditure categories): (i) capital transfers arising from assumption of obligations of public enterprises undergoing privatization or liquidation; (ii) capital transfers arising from assumption of obligations of private enterprises; (iii) capital grants arising from assumption of obligations of other general government units; and (iv) current transfers at the end of the fiscal year used for financing of the deficits on accounts (as defined in paragraph 10 below) at the Treasury of Treasury correspondents (*Correspondant du Trésor*) and local governments (*Collectivités locales*).<sup>1</sup> It excludes restructuring costs for public enterprises as defined in paragraph 9; and other financial treasury operations as described in paragraph 10.

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<sup>1</sup> The recognition of debts by the central government to private enterprises for provision of services in previous fiscal years (utility bills in excess of budgeted allocations in the case of SEEG and Gabon Telecom, and unpaid

9. **The restructuring costs** excluded from total government expenditure and posted as “financing” represent the redundancy costs relating to the public enterprises to be liquidated or privatized in the context of the central government’s divestiture of its productive sector holdings, the operating costs (consultants, etc.) of the Secretariat of the Privatization Committee, and administrative and legal costs arising from legal challenges related to these divestment operations. The restructuring costs to be classified as financing in 2009 are capped at CFAF 10 billion.

10. **The financial operations specified in the TOFE** relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury operations (*autres opérations de trésorerie*) correspond to the change from period to period in the balance of these accounts. In the case of financial operations on accounts at the Treasury of treasury correspondents (*correspondants du Trésor*) and local governments (*collectivités locales*), a debit (i.e., negative) entry for the whole fiscal year, representing a reduction in the balance of such accounts, can not exceed the balance of the account at the start of the fiscal year. If for a given account, a debit entry for the whole fiscal year exceeds the balance on this account at the start of the fiscal year,<sup>2</sup> the central government financing of the deficit ran by the treasury correspondent or local government will be recorded in the TOFE as non-bank financing (a credit (i.e., positive) entry under “Assumption of end-fiscal year deficits on accounts at the Treasury of Treasury correspondents and local governments”) and as a corresponding increase of the same magnitude of current transfers.

11. **The outstanding amount of the net claims of the banking system on the central government** is measured in accordance with the accounting practice at the central bank, the BEAC (“IMF format”), excluding deposits of the postal checking account system.<sup>3</sup> Effective December 31, 2008, the treasury deposits at the BEAC and treasury cash will be consolidated to include the deposits at the BEAC and cash of the *Central Deposit Holding Agency (Agence Comptable Centrale des Depots, ACCD)*.<sup>4</sup> As of October 31, 2008, this outstanding amount was CFAF -166.3 billion, and its breakdown was as follows:

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subsidies in the case of SMAG, the local flour producer) will be recorded in the TOFE as a decrease in arrears in the fiscal year when the debt agreements are signed with a corresponding increase in the central government debt to private enterprises.

<sup>2</sup> If the starting balance on the account was negative then the entire drawdown over the fiscal year constitutes an overdraft.

<sup>3</sup> The deposits of the postal checking account system are excluded since they are not at the disposal of the treasury

<sup>4</sup> The Treasury set up the Central Deposit Holding Agency (ACCD) in 2007 to manage all government deposits and payments. Eventually, all Treasury correspondents would transfer their accounts at commercial banks to the ACCD, where they would receive payments from the Treasury. ACCD became operational in 2008. It is a

(continued)

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Net Claims of the Banking System on the Central Government as of October 31, 2008  
(CFAF billions)

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|  |        |
|--|--------|
| Statutory advances from the BEAC                       | 61.6   |
| Plus: CFA franc counterpart of use of Fund resources   | 1.3    |
| Plus: consolidated advances                            | 0.4    |
| Minus: treasury deposits at the BEAC and treasury cash | 243.2  |
| <i>Of which:</i> Account for Future Generations        | 171.5  |
| ACCD cash and deposits at the BEAC                     | ...    |
| Plus: Commercial banks claims on government            | 70.3   |
| <i>Of which:</i> Bons d'équipements                    | 47.3   |
| Government bonds                                       | 19.2   |
| Minus: government deposits with commercial banks       | 56.6   |
| Total  | -166.3 |

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12. **The accumulation of external payments arrears** by the central government, which is a continuous performance criterion with a zero limit, is calculated as the difference between (a) the amount of each maturity falling due on account of contractual external debt-service obligations (interest and/or principal, including moratorium and late/penalty interest, where applicable); and (b) the amount of actual payments made for each debt service payment due during the period under consideration. Arrears resulting from the nonpayment of the debt service for which a rescheduling agreement is sought are excluded from this definition.

13. **The total stock of central government domestic liabilities** is defined as the stock of government's outstanding liabilities to bank and non-bank domestic creditors scheduled to be extinguished in the future. Domestic non-bank liabilities include all the domestic debt registered at the National Debt Office (DGCP), all other documented domestic liabilities registered at the treasury, which have not been accounted for at the DGCP and the stock of wage arrears,<sup>5</sup> and the outstanding amounts on accounts at the Central Deposit Holding Agency (ACCD). It also includes public enterprise domestic debt taken over by the government in the context of restructuring operations. This definition excludes intragovernmental debt, and the treasury float. The outstanding stock of domestic debt at end-December 2007 was CFAF 460 billion and the stock of domestic non-bank liabilities was CFAF 233 as shown in the following summary table:

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department of the Treasury and ACCD cash and deposits at the BEAC will be consolidated with other Treasury accounts in monetary statistics starting in December 2008.

<sup>5</sup> The wage arrears (*rappels de la solde*) correspond to the unpaid salary component resulting from delayed regularization of automatic promotions (*avancements*) of civil servants.

**Table 1. Gabon: Stock of Domestic Government Liabilities, 2006-08<sup>1</sup>**  
(Billions of CFA francs, end-of-period)

|  | 2006   | 2007                |                        | 2008               |                     |                        |                    |
|--|--------|---------------------|------------------------|--------------------|---------------------|------------------------|--------------------|
|  | Actual | Estimate            |                        | Projection         |                     |                        |                    |
|  | Stock  | Principle repayment | Assumption of new debt | Stock              | Principle repayment | Assumption of new debt | Stock              |
| Stock of domestic debt   | 472.5  | ...                 | ...                    | 460.4              | ...                 | ...                    | 323.6              |
| Liabilities to the domestic banking system                                 | 178.3  | ...                 | ...                    | 227.2              | ...                 | ...                    | 92.3               |
| BEAC   | 89.9   | ...                 | ...                    | 110.4              | ...                 | ...                    | 39.6               |
| of which, Statutory advances   | 60.9   | ...                 | ...                    | 98.9               | ...                 | ...                    | 39.6               |
| Commercial banks   | 88.3   | ...                 | ...                    | 116.8              | ...                 | ...                    | 52.7               |
| of which, Equipment bonds  | 70.4   | ...                 | ...                    | 82.9               | ...                 | ...                    | n.a.               |
| Non-bank domestic government debt  | 294.3  | 145.6               | 107.6                  | 233.2              | 103.5               | 112.1                  | 231.4              |
| Registered at the National Debt Office (DGCP)                              | 75.5   | 60.0                | 106.0 <sup>6</sup>     | 121.5              | 78.5                | 112.1 <sup>6</sup>     | 144.7 <sup>7</sup> |
| Debt under moratorium ( <i>moratoire</i> )                                 | 14.3   | 16.3                | 9.5                    | 7.5                | 25.6                | 18.2                   | 0.0                |
| Other obligations ( <i>divers</i> )  | 61.2   | 43.7                | 96.6                   | 114.1              | 52.9                | 31.5                   | 92.7               |
| Regional bond <sup>2</sup>   | ...    | ...                 | ...                    | ...                | 10.4                | 62.4                   | 52.0               |
| Registered at the Treasury   | 218.8  | 85.6                | 1.6                    | 111.7 <sup>7</sup> | 25.0                | 0.0                    | 86.7 <sup>7</sup>  |
| "Club de Libreville" agreements <sup>3</sup>                               | 17.9   | 38.3                | 1.6                    | 0.0                | 0.0                 | 0.0                    | 0.0                |
| Arrears on salary adjustments ( <i>rappels de la solde</i> ) <sup>4</sup>  | 112.1  | 23.4                | 0.0                    | 88.7               | 20.0                | 0.0                    | 68.7               |
| Other debt and arrears <sup>5</sup>  | 88.9   | 23.9                | 0.0                    | 23.0               | 5.0                 | 0.0                    | 18.0               |
| Amount owed on accounts at the Agence Comptable Centrale des Depots (ACCD) | ...    | ...                 | ...                    | ...                | ...                 | ...                    | 16.4               |

Source: Gabonese authorities, and IMF staff estimates.

<sup>1</sup> Domestic non-bank liabilities include all domestic debt registered at the National Debt Office (DGCP) and all other documented domestic liabilities registered at the Treasury. Not included in this definition are intragovernmental debt, treasury float (*instances du Trésor*), and social plans and restructuring costs for public enterprises undergoing privatization or liquidation.

<sup>2</sup> CEMAC bond issued in January 2008 to finance the early repayment of Paris Club external debt. Only the initial subscription and related payments to Gabonese non-bank residents and banks in other CEMAC countries are recorded.

<sup>3</sup> Since 2004, the government has been regularizing domestic arrears by seeking agreements with supplier and other private-sector enterprises. The process is known as "Club de Libreville".

<sup>4</sup> Unpaid salary adjustments result from delayed regularization of automatic promotions of civil servants. Requests for regularization, typically made by retiring civil servants, are subject to verification by court before payments can be made. Given the backlog of court cases the stock of related debt items is not yet final.

<sup>5</sup> Includes two types of treasury arrears and other debt. The first type of arrears, regularized in the first quarter of 2007, included arrears to SOGARA and other arrears that were later regularized under the Club de Libreville III and IV umbrellas. The second type includes arrears accumulated on behalf of the Fonds d'entretien routier (FER) and the state's obligation to compensate citizens for the damage caused by the political upheaval during the mid-1990s. There are still audits outstanding, implying that the stock of related debt items is not yet final. Other treasury debt included government debt to SOGARA from regularization of arrears arising from unpaid fuel subsidies (gross sum of CFAF 47 billion from which 23.2 billion of Sogara tax arrears were netted out) assumed with a letter of the Finance Minister to Sogara on January 25, 2007.

<sup>6</sup> The new debt (of all types) assumed by DGCP is imputed as the difference between the reported end-year debt stocks in two consecutive years minus reported principle repayments over the period.

<sup>7</sup> For all types of debt registered at the Treasury and DGCP, stocks from 2007 onward are estimated by adding to the end-2006 stocks the reported new assumption of obligations and subtracting principle payments.

14. **The treasury float** consists of the "payment orders at the treasury" and the "other treasury float." The "payment orders at the treasury" corresponds to the difference between the cumulative payment orders (*ordonnancements*) and the cumulative actual payments on a cash basis (cash checks, bank transfers or cash payment). The "other treasury float" includes the accounts on "subsidies," "consignments," "accounting agencies," including "transfers between accounting offices" related to budgetary operations, and "installments to be allocated." For 2009, the net reduction of the treasury float is defined as the reduction in the float existing at end-2008, less the accumulation of new float during 2009.

15. **The performance criterion on the contracting and guaranteeing of new external debt** with maturity of over one year by the central government applies not only to debt as defined in point 9 of the *Guidelines on Performance criteria with Respect to Foreign Debt*,

adopted by the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received.

### **Adjustments to quantitative performance criteria**

16. The quarterly performance criteria will be adjusted as follows:
- The primary non-oil fiscal balance of the central government will be adjusted to reflect **expenditure related to the inclusion of PID and PIH oil revenue** into the budget reporting.
  - The floor on the non-oil primary fiscal balance of the central government will be adjusted downward for higher-than-programmed external financing up to the equivalent of CFAF 25 billion per year.
  - With the objective of shielding fiscal objectives from **uncertainties regarding oil prices and output**, the ceiling on the net claims of the banking system will be adjusted upward/downward if oil revenue is below/above the baseline projections in a given quarter. If the Brent oil price projections as reported by the IMF-WEO decline by more than 30 percent from the baseline program projection for 2007 (US\$60.75 per barrel), then a consultation between the IMF and the government is required;
  - The ceiling on net credit from the banking system to the central government will be adjusted upward/downward for higher/lower-than programmed **external debt service** effectively paid<sup>6</sup> net of any amount raised through new external debt issues;
  - The ceiling on net claims from the banking system to the central government will be adjusted upward/downward for higher/lower-than programmed **domestic debt service payments** net of any amount raised through new domestic debt issues <sup>7</sup> and financing received on account of the float on accounts at the *Agence Comptable Centrale des Depots (ACCD)*. The upward adjustment is limited to CFAF 5 billions;
  - The ceiling on net claims from the banking system to the central government will be adjusted upward/downward for lower/higher-than-programmed net **reduction in the treasury float**. The upward adjustment is limited to CFAF 5 billions;
  - The ceiling on net claims from the banking system to the central government will be adjusted downward for lower-than-programmed restructuring costs as defined in paragraph 8;

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<sup>6</sup> External debt service due minus any accumulation of external arrears minus debt relief obtained. The programmed amounts of debt service, payments arrears, debt relief, and non-project external financing are calculated in CFA franc terms based on end 2006 exchange rates. The actual amounts are calculated in CFA franc terms based on the actual transactions in foreign currency and the exchange rates published by the Fund.

<sup>7</sup> Regional bond issues in CFA francs are considered domestic debt issues regardless of the residency of buyers.

- The ceiling on net claims from the banking system to the central government will be adjusted upward to reflect any purchase by commercial banks of outstanding contractual government credit (*rachat de créances*) and government bonds issued on the CEMAC market held by non-bank private sector creditors as of end-2008.
- The ceiling on net claims from the banking system to the central government will be adjusted downward/upward for higher/lower-than-programmed privatizations receipts.
- The ceiling on the contracting or guaranteeing by the government of new external debt will be adjusted to reflect new debt that could be contracted in the context of an external debt buy-back/restructuring operation that would result in a net present value reduction of Gabon external public debt .

17. The structural performance criteria and benchmarks are specified in Table 2 of the MEFP attached to the letter of April 15, 2007. The relevant definitions are described in paragraphs 18–20.

18. **The fuel price subsidy** is defined as the sum of the fuel price subsidy to the refinery (SOGARA) and the direct fuel price subsidy at the pump. The fuel price subsidy to SOGARA is defined as the transfer by the government to the refinery—including through the delivery of crude oil to be valued at the official sale price (*prix de cession officiel*)—to compensate it for differences between import parity prices (PPI) and government controlled ex-refinery fuel prices. PPI are calculated on the basis of the formula detailed in government decree No. 01217/PR/MFEBPP of September 25 1998. Ex-ante, the subsidy is projected as the difference between the expected PPI and ex-SOGARA price for each fuel product, multiplied by the expected sale volumes. Ex-post, the subsidy equals the difference between the actual PPI and ex-SOGARA prices, multiplied by the actual sale volumes, as illustrated in the following table:

Example: Calculation of Fuel Price Subsidy, June 2005

|   | Super<br>gasoline | Lighting<br>kerosene | Jet<br>kerosene | Diesel  | Butane  | Fuel oil | Asphalt |
|---|-------------------|----------------------|-----------------|---------|---------|----------|---------|
| Import parity price, PPI (in CFAF/M3 or T) <sup>1</sup> | 288,424           | 269,293              | 321,021         | 277,369 | 229,663 | 181,701  | 200,432 |
| Actual ex-refinery price (in CFAF/M3 or T)              | 214,404           | 145,693              | 197,693         | 172,313 | 155,717 | 142,348  | 146,857 |
| Difference (in CFAF/M3 or T)                            | 74,020            | 123,600              | 123,328         | 105,056 | 73,946  | 39,353   | 53,575  |
| Quantity sold on domestic market (M3 or T) <sup>1</sup> | 4,735             | 3,707                | 5,959           | 31,609  | 2,098   | 8,897    | 122     |
| Fuel price subsidy for the month (million CFAF)         | 350.5             | 458.2                | 734.9           | 3,320.7 | 155.1   | 350.1    | 6.5     |

<sup>1</sup> Asphalt, butane, and fuel oil quantities are expressed in metric tones (T). The remaining products are expressed in cubic meters (M3).

The fuel price subsidy at the pump is defined as the subsidy that results from government changes in the stabilization factor (or other government-controlled factors) from the normal level in the retail price structure (see below). Ex-post, the subsidy at the pump equals the difference between the actual stabilization factor and the normal level, multiplied by the actual sale volumes.

19. The price adjustment mechanism for fuel products will be applied as follows. In January and February 2009, on the first of each month, ex-refinery SOGARA prices for all fuel products (gasoil, super, lampant, butane, bitumen and jet fuel) will be set equal to the PPI for the current month; starting in March 1 2009, on the first of each month, ex-refinery SOGARA prices will be set equal to the 3-month moving average PPI. Effective March 1 2009, retail prices of super, gasoil, butane, and lampant will be calculated based on the ex-refinery SOGARA and the price structure as illustrated below; for butane and lampant, retail prices can be subsidized through the adjustment of the stabilization factor, provided that the total subsidy for these two products over the whole of 2009 does not exceed the amount in the budget (i.e., 8 billions CFA). The stabilization factor will be adjusted as necessary to keep the retail price of butane constant in January and February 2009, to keep the retail price of lampant constant during January, and to raise the retail price of lampant from CFAF 245 to CFAF 275 on February 1. The stabilization factor for super and gasoil during January and February can be adjusted to the extent it is needed to offset the subsidy for butane and super. Effective January 1 the retail prices of bitumen and jet fuel will be liberalized.

Retail price structure for oil products  
(CFAF per liter)

|  | Super gasoline | Gasoil | Lampant | Butane |
|--|----------------|--------|---------|--------|
| Ex-refinery price (CFAF/liter)           | 100.0          | 100.0  | 100.0   | 100.0  |
| VAT on ex-refinery price                 | 18.0           | 18.0   | 18.0    | 18.0   |
| After-VAT ex-refinery price (FCFA/liter) | 118.0          | 118.0  | 118.0   | 118.0  |
| Equalization fee                         | 51.6           | 43.9   | 26.4    | 26.4   |
| Consumption price                        | 169.6          | 161.9  | 144.4   | 144.4  |
| Stabilization fee (cross subsidy)        | 44.8           | 6.7    | -40.6   | -40.6  |
| Interior consumption tax (TCl)           | 53.2           | 47.1   | 24.5    | 24.5   |
| Special tax (TS)                         | 0.0            | 0.0    | 0.0     | 0.0    |
| Security stock (SS)                      | 2.0            | 2.0    | 2.0     | 2.0    |
| Municipal tax (TM)                       | 5.5            | 2.1    | 0.0     | 0.0    |
| Distributor's margin                     | 33.1           | 33.1   | 33.0    | 33.0   |
| VAT on distributor's margin              | 6.0            | 6.0    | 5.9     | 5.9    |
| Transport delivery city                  | 6.2            | 6.2    | 6.2     | 6.2    |
| VAT on transport delivery city           | 1.1            | 1.1    | 1.1     | 1.1    |
| Wholesale price (FCFA/litre)             | 321.6          | 266.3  | 176.7   | 176.7  |
| Margin of retailer                       | 15.6           | 15.6   | 15.6    | 15.6   |
| VAT on retailer margin                   | 2.8            | 2.8    | 2.8     | 2.8    |
| Retail price (all taxes included)        | 340.0          | 284.7  | 195.1   | 195.1  |

Source: Gabonese authorities, and IMF staff calculations.

20. **The treasury payment period** consists of the time-lag between the date in which the budget general direction (DGB) certify the payment order (*visa de la journée comptable*) and the date the payment is effectively made by the Treasury.

### C. Reporting Requirements

21. To facilitate monitoring of program implementation, the government of Gabon will prepare and send to the IMF by e-mail or by fax data and monthly reports within six weeks

following the end of the preceding month. Such data will include (but are not limited to) the following:

- (a) the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks (electronic file);
- (b) the net financial position of the central government (PNG) with the BEAC and the banking system, with separate lines for (i) the balance on the account of the Fund for Future Generations and (ii) the outstanding amount of government securitized domestic debt purchased by the banks from commercial creditors (electronic file);
- (c) the central government financial operations (*opérations financières de l'Etat*) on a payment order basis (*ordonnancements*), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);
- (d) the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, boni and other) and by company/type of contract, and the underlying information when available (e.g. production, prices, turnover, costs, etc.), as well as the detailed breakdown of non-oil tax revenue (by type of tax) and nontax revenue (electronic file);
- (e) the detailed breakdown of total central government expenditure, on an adjusted commitment basis, adjusted payment order basis, and cash basis as presented in the *Tableau Intégré* produced by the Statistical Committee (*Comité statistique*) (electronic file);
- (f) the details for domestic and external debt-service obligations, on a contractual and actual payments basis, respectively, with a breakdown into interest and principal and by creditor, as well as any possible accumulation of domestic or external arrears (electronic file);
- (g) the details on the stock of external and domestic debt at the end of each quarter prepared by the DGCP. The external debt stock is to be evaluated at end-of-quarter exchange rates (electronic file);
- (h) the details for the outstanding stock of the treasury float (month to month) and the cumulative flows from January 1, 2007; the net accumulation of new float during 2007, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2007 float, with both items to be broken down by wages and salaries, goods and services, transfers and subsidies, interest, capital expenditure, and net lending; any stock-flow adjustment not consistent with flows should be explained (electronic file).

- (i) information on the balance of the accounts relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury financial operations specified in the TOFE.
  - (j) the amount of new external debt contracted or guaranteed by the central government, with the detailed information on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity) and the envisaged path of disbursement;
  - (k) actual disbursements on external debt, including on newly contracted loans, by creditors and by projects/programs and the amounts of debt relief, if any, granted to Gabon by external creditors (electronic file);
  - (l) monthly information on the oil sector: export prices, effective exchange rate, production per oil field, volume of exports and volumes provided to SOGARA based on data from the Direction Générale des Hydrocarbures (electronic file);
  - (m) quarterly information on number of forestry permits with tax arrears returned to the public domain, number of outstanding forestry permits with tax arrears, forestry tax arrears recovered and forestry tax arrears outstanding;
  - (n) quarterly report on numbers and value of procurement contracts treated by the Direction Générale des Marchés Publics (DGMP) by type of contracting;
  - (o) indicators and other statistical data on recent economic developments, such as the household consumer price index, merchandise imports and exports (in value and volume terms) by major categories on the basis of customs data, timber production and exports by categories (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy (DGE) and six-monthly report of the balance of payments by the BEAC;
  - (p) quarterly data on the finances of local authorities; and
  - (q) a status report on the implementation of the structural reforms specified in Table 2 attached to the letter of April 15, 2007.
22. The Technical Support Unit of the Interministerial Committee for Monitoring the Structural Adjustment Program will provide the African Department of the IMF with any other information that the latter may deem necessary or that may be requested by the staff of the IMF for the effective monitoring of the program.

INTERNATIONAL MONETARY FUND

GABON

**Second and Third Reviews Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of Performance Criterion—Informational Annex**

Prepared by the African Department  
(In consultation with other departments)

Approved by David Nellor and David Marston

February 17, 2009

- **Relations with the Fund.** Gabon has been a member of the International Monetary Fund since 1963. CEMAC member countries accepted the obligations of Article VIII in June/July 1996. The economic program of the government is supported by a three-year precautionary Stand-By Arrangement with the IMF, approved on May 7, 2007. The Executive Board completed the first review under the SBA in December 2007.
- **Relations with the World Bank.** The World Bank has a base-case assistance program for Gabon that includes lending operations in the urban, natural resources, and infrastructure sectors.
- **Exchange rate regime:** Gabon is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged at the fixed exchange rate of 655.957 CFA franc per euro. Gabon's exchange system is free of restrictions on payments and transfers for current international transactions.
- **Statistical Issues.** Gabon has subscribed to the General Data Dissemination System (GDDS). While data are adequate for surveillance purposes, staff analysis was affected by the timeliness and coverage of fiscal data, the poor quality of balance of payments data, and the limited information on labor cost and productivity. Publication by the IMF of the statistical appendix for Gabon has been discontinued since, with Fund technical assistance, Gabon has posted most data on the internet ([www.stat-gabon.ga/Home/Index1.htm](http://www.stat-gabon.ga/Home/Index1.htm)).

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**ANNEX I. RELATIONS WITH THE FUND**

(as of December 31, 2008)

**I. Membership Status:** Joined: September 10, 1963; Article VIII

| <b>II. General Resources Account:</b> | <b>SDR Million</b> | <b>%Quota</b> |
|---------------------------------------|--------------------|---------------|
| Quota                                 | 154.30             | 100.00        |
| Fund holdings of currency             | 153.85             | 99.71         |
| Reserve Position                      | 0.45               | 0.29          |
| Holdings Exchange Rate                |                    |               |

| <b>III. SDR Department:</b> | <b>SDR Million</b> | <b>%Allocation</b> |
|-----------------------------|--------------------|--------------------|
| Net cumulative allocation   | 14.09              | 100.00             |
| Holdings                    | 0.30               | 2.15               |

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:**

| <u>Type</u> | <u>Date of Arrangement</u> | <u>Expiration Date</u> | <u>Amount Approved (SDR Million)</u> | <u>Amount Drawn (SDR Million)</u> |
|-------------|----------------------------|------------------------|--------------------------------------|-----------------------------------|
| Stand-By    | May 07, 2007               | May 06, 2010           | 77.15                                | 0.00                              |
| Stand-By    | May 28, 2004               | Jul 31, 2005           | 69.44                                | 41.66                             |
| Stand-By    | Oct 23, 2000               | Apr 22, 2002           | 92.58                                | 13.22                             |

**VI. Projected Payments to Fund (Expectation Basis)**

(SDR Million; based on existing use of resources and present holdings of SDRs):

|                  | <u>2009</u> | <u>2010</u> | <u>Forthcoming</u> | <u>2012</u> | <u>2013</u> |
|------------------|-------------|-------------|--------------------|-------------|-------------|
| Principal        |             |             |                    |             |             |
| Charges/Interest | 0.13        | 0.11        | 0.11               | 0.11        | 0.11        |
| <b>Total</b>     | 0.13        | 0.11        | 0.11               | 0.11        | 0.11        |

**VII. Implementation of HIPC Initiative:** Not Applicable

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**IX. Safeguards Assessments:**

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on August 30, 2004. The assessment found that the Bank has implemented a number of

measures to strengthen its safeguards framework since the 2001 safeguards assessment, and recommended further enhancements in the areas of external and internal audits, and financial reporting. Latest monitoring results indicate the existence of certain vulnerabilities including in the system of internal audit and internal controls. These and other aspects of the BEAC safeguards framework are reviewed in the context of the 2008 update safeguards assessment of BEAC that is underway.

#### **X. Exchange Rate Arrangement:**

Gabon is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged to the Euro at a fixed rate of CFAF 655.957= €1. Gabon does not have a separate currency.

Like other members of the Central African Economic and Monetary Community (CEMAC), Gabon has accepted the obligations of Article VIII, Section 2.3 and 2.4 of the IMF Articles of Agreement. Restrictions on making payments and transfers for current international transactions are in place only for security reasons in accordance with UN Security Council Resolution No. 1373.

#### **XI. Article IV Consultations:**

- (a) Gabon is on a 24-month Article IV consultation cycle.
- (b) The Executive Board concluded the last Article IV consultation with Gabon on July 28, 2008.

#### **XII. FSAP Participation:**

A national module for Gabon of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) was completed in 2002 and discussed by the Executive Board in March 2002 (IMF Country Report No. 02/98). A regional FSAP module for the CEMAC was completed in 2006 and discussed by the Executive Board in 2006 (IMF Country Report No. 06/321).

#### **XIII. Technical Assistance:**

##### **A. Central Africa Regional Technical Assistance Center (AFRITAC)**

| <i>Area</i>                 | <i>Focus</i>                                   | <i>Time of Delivery</i> |
|-----------------------------|--|-------------------------|
| Public financial management | Seminar on Treasury management                 | Mar. 2008               |
| Economic statistics         | National accounts                              | Mar./Oct. 2008          |
| Revenue administration      | Strengthening fiscal administration            | Feb. 2008               |
| Revenue administration      | Assistance in reform implementation            | Feb. 2008               |
| Public financial management | Monthly budget reports                         | Dec. 2007               |
| Bank supervision            | Bank supervision                               | Nov. 2007               |
| Debt management             | Review debt management procedures              | Nov. 2007               |
| Revenue administration      | Review customs reforms and TA needs assessment | Nov. 2007               |
| Economic statistics         | National accounts                              | Oct. 2007               |

|                             |  |           |
|-----------------------------|--|-----------|
| Revenue administration      | Strengthening fiscal administration        | Oct. 2007 |
| Economic statistics         | Price statistics                           | Sep. 2007 |
| Public financial management | Design and implementation of treasury plan | Jun. 2007 |
| Public financial management | Treasury plan; public financial reporting  | Jun. 2007 |
| Revenue administration      | Review of fiscal administration reforms    | Jun. 2007 |
| Debt management             | Institutional support                      | May 2007  |

## B. Headquarters

| <i>Department</i> | <i>Purpose</i>  | <i>Time of Delivery</i>  |
|-------------------|---|--------------------------|
| FAD               | Revenue administration—review of reforms and next steps     | Sep. 2008                |
| FAD               | Seminar on governance and oil and gas contracts             | Apr. 2008                |
| MCM               | Public debt—handbook elaboration for Gabon                  | Nov. 2007 /<br>Apr. 2008 |
| LEG               | Financial Intelligence Unit development                     | Jun. 2007                |
| FAD               | Poverty and social impact analysis of fuel subsidies reform | Jan. 2007                |
| FAD               | Fiscal ROSC   | Mar./Apr. 2006           |
| FAD               | Budget management   | Mar. 2004                |
| FAD               | Tax policy and administration                               | Nov. 2003                |
| LEG               | Law against illicit enrichment                              | Jun., Jul.,<br>Oct. 2003 |
| FAD               | Budgetary procedures and expenditure control                | Nov. 2000                |
| STA               | Multisector statistics mission                              | May 1998                 |
| FAD               | Value-added tax administration issues                       | Aug. 1997                |

## XIV. Resident Representative:

The Fund maintains a resident representative office in Libreville. The current resident representative, Mr. Thiam Samba, assumed his post in 2007.

## ANNEX II. RELATIONS WITH THE WORLD BANK

(Updated as of May 14, 2008)

1. Gabon is one of Africa's few IBRD countries; GNI per capita was US\$5630 in 2006. The Bank is working closely with the IMF team to support structural measures, particularly for the development of natural resources (forestry, mining, and fisheries) and local private sectors in urban areas; and to support implementation of the Government's Growth and Poverty Reduction Strategy (GPRSP).

### **The Bank Group Strategy and Lending Operations**

2. The Board of Directors approved the Gabon Country Assistance Strategy (CAS) on May 24, 2005, and discussed a CAS progress report on January 17, 2008. The strategy is articulated around two pillars: (1) strengthening the management of public resources (both natural and financial) to improve social outcomes; and (2) improving the investment climate to foster sustainable, private-sector-led non-oil growth. Cross-cutting themes are developing capacity in government and civil society, and improving governance and participation. During the Board review of the CAS progress report, directors expressed broad support for the strategy and noted the country's efforts to improve governance through EITI and emphasized that more attention needed to be paid to improving weak social indicators.

3. The Bank has a base-case assistance program for Gabon that includes lending operations in the urban, natural resources, and infrastructure sectors: a US\$15 million Natural Resources Management Development Policy Loan approved in November 2005; a US\$25 million Public Investment Program for Local Infrastructure Development approved in March 2006; and a US\$75 million Infrastructure Project planned for early FY09. Each operation emphasizes improving transparency and efficiency in the use of public resources, and improving the environment for participation of the private sector. The three conditions for the Natural Resource Management DPL2 have been met.

4. Currently IFC has an exposure of US\$32.5 million in oil, gas, electricity, and telecommunications, and the World Bank Group's Foreign Investment Advisory Services (FIAS) completed a diagnostic study of the investment climate in late 2004. A US\$61 million MIGA guarantee for rehabilitation and modernization of a professional training institute was approved by the Board in May 2005. This project is MIGA's first in the education sector.

### **IMF—World Bank Collaboration**

5. IMF and World Bank staffs collaborate closely in supporting reforms to foster economic diversification and in coordinating their policy advice to the Gabonese authorities. In view of the structural measures envisaged by the medium-term program, successful implementation of the reform program hinges on complementary action by the World Bank, especially in the areas of business climate improvements, effective and efficient public resources management (including MTEF), poverty reduction policies, nonrenewable resource management, and identification and development of sources of growth in the non-oil sector. In 2007 Gabon was selected as one of the pilot countries for the initiative of the World Bank's Managing Director Daboub and the Fund's First Deputy Managing Director Lipsky

to reinforce collaboration between the two institutions on management of natural resources. Bank and Fund teams are discussing with the Gabonese authorities specific projects.

### **Bank/Fund Collaboration**

| <b>Area of Structural Reform</b>                     | <b>Lead Institution</b> |
|--|-------------------------|
| <b>Fiscal area</b>                                   |                         |
| Civil service reform                                 | IMF                     |
| Expenditure monitoring and control                   | IMF                     |
| Public financial management review                   | World Bank              |
| Tax administration and fiscal ROSC                   | IMF                     |
| <b>Governance</b>                                    |                         |
| Anticorruption law implementation                    | IMF                     |
| Code of ethics for government officials              | IMF                     |
| Extractive Industries Transparency Initiative (EITI) | World Bank/IMF          |
| <b>Private sector development</b>                    |                         |
| FIAS study of the business climate                   | World Bank/IFC          |
| Diversification and non-oil sector development       | World Bank              |
| <b>Other</b>   |                         |
| Price controls                                       | IMF                     |
| Forestry, environment, fisheries, mining, oil        | World Bank/IMF          |
| PRSP   | World Bank/IMF          |
| External trade                                       | World Bank / IMF        |
| Transport  | World Bank              |
| Urban development                                    | World Bank              |

### **IMF–World Bank Collaboration in Specific Areas**

#### **Areas where there is no direct IMF involvement**

6. The Bank supported completion of the Government's poverty reduction strategy and will continue to provide support for strengthening statistical capacity and assisting the NSO (National Statistical Office). In summer 2005 the Bank provided financial and technical assistance for household surveys using a Core Welfare Indicators Questionnaire (CWIQ) to update social indicators to be monitored annually. The results of the CWIQ household survey were used in finalizing the GPRSP. The Bank also plans to help the NSO put together a system for monitoring the poverty reduction strategy, and it completed a new poverty assessment based on the expenditure module of the CWIQ survey in December 2006. The assessment will provide the basis for regularly monitoring poverty trends in Gabon. Together with the programs and sectoral strategies developed in the GPRSP, it will provide a firmer foundation for directing resources to poverty alleviation over the long term.

**Areas where the World Bank leads and its analysis guides IMF activity**

7. In November 2005, the Bank Board approved a \$15 million Natural Resources Management Development Policy Loan (DPL) that covers the forest, environment, fisheries, mining, and oil sectors. In the oil sector, it will support implementation of the EITI. In March 2006, the Board also approved a \$10 million grant from the Global Environment Facility for Gabon's national parks. It focuses on improving transparency, law enforcement, and removing policy distortions and on helping the authorities implement reforms and empower civil society organizations and local communities to manage natural resources. The project is expected to broaden the number of beneficiaries and raise social and environmental standards in the forestry, fishing, and mining sectors, and thus help the government to diversify the economy and reduce its dependence on oil. The 2007 CAS progress report found that the high-case triggers to move to a second Natural Resource Management DPL have been met, although it will be sequenced to follow disbursement of the second tranche of the previous loan. However, given delays in implementing the first DPL, it is not expected that the second project will be in place by the end of FY2009.

8. In June 2004 the Bank completed a US\$5 million Pilot Community Infrastructure Development Project (Learning and Innovation Loan) designed to test new methods for building community-based infrastructure and supporting local contractors. The goal was to improve living conditions in certain poor urban neighborhoods in a sustainable way and with substantial community participation. The project also aimed at building local capacity to undertake a larger program of community-based public works. The initiative was successful, and the Bank on March 14, 2006, approved a US\$25 million loan to (1) increase the access of people living in low-income settlements to basic services; and (2) sustain the access of local SMEs to civil works and public construction contracts. The project is likely to increase the access of the poor to infrastructure and services, build up SMEs, and improve the quality of public works through increased transparency and efficient procurement and contract management.

9. A combined Public Expenditure Review/Country Financial Accountability Assessment/Country Procurement and Audit Review was completed late in 2006. Its aim was to improve public expenditure management and control systems, ensuring that funds are used for the purposes for which they were intended and achieve the expected results. As part of the PFM reforms, the Bank is leading multidonor assistance to help authorities draft and implement a medium term expenditure framework (MTEF).

10. FIAS (a joint facility of the World Bank and IFC) is providing advice on improving the investment climate in Gabon; in September 2004 it completed a diagnostic of the investment climate, including identification of priorities for reform with recommendations. The authorities held a validation workshop in February 2005 to discuss the recommendations and establish an action plan. Further studies were envisioned to identify constraints on private investment and draft an action plan to remedy impediments to private sector growth, including detailed reviews of administrative barriers to investment and of the tax and incentive regime (with an objective of proposing concrete changes). Each study is to be confirmed based on action taken on the previous one.

11. The World Bank has also completed an Infrastructure Framework Report. It covers transport infrastructure (railways and air and maritime transport), telecommunications, water, and power. The report was discussed with the Government Steering Committee during a dissemination workshop in December 2007. The World Bank and PPIAF discussed with the Government follow-up technical assistance in a number of areas, including stronger regulation of telecoms, institutional capacity building for development and management of PPPs, and preparation of a rural electricity program.

#### **Areas of shared responsibility**

12. While the Bank has taken the lead in structural reforms impacting the environment for the private sector, the IMF also has considerable interest in the same area. The IMF's primary focus is on good governance, particularly fiscal, and promotion of transparency in both the public and private sectors. Additional concerns for the Bank are the efficiency of the resulting market structures and improved enterprise operation. Both Bank and IMF are working closely in the financial sector, for which the two institutions prepared a joint Financial Sector Assessment Program (FSAP) in 2002. While the FSAP indicated that the financial sector in Gabon is generally profitable and stable, it also identified structural weaknesses and risks in Gabon's financial sector, including undiversified bank portfolios and underdevelopment of nonbank financial institutions.

13. Areas where the Fund takes the lead and its analysis guides Bank-supported programs are in the dialogue on fiscal matters, which sets the envelope for public expenditures. The IMF is also providing technical assistance on governance and anticorruption. The IMF leads the dialogue on policies to contain certain public expenditures, such as those regarding the public wage bill and definition of the ceiling for public investment. In these areas, the Bank ensures that its own policy advice is consistent with IMF recommendations. The IMF is also monitoring implementation of the Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA) and the trade liberalization measures being taken at the CEMAC (regional) level. This supplements a significant program of Bank work to support regional integration among CEMAC countries. These measures should improve the business climate and will complement work by the Bank (in conjunction with the IFC) to facilitate investment.

14. **Areas where there is no direct World Bank involvement** relate to the dialogue on monetary policy, interest rates, the exchange rate, the balance of payments, and related statistical and measurement issues.

### ANNEX III. GABON: STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis is affected by shortcomings in the accuracy, reliability and adequacy of periodicity and timeliness for certain data, as well as consistency between datasets. The statistical producing agencies do not have sufficient access to source data and lack an institutional framework in which to share information and coordinate compilation efforts.
2. Gabon participates in the General Data Dissemination System (GDDS) but has not updated the metadata or plans for improvement, since 2002. Except for consumer prices, the authorities do not report any real sector or government finance statistics (GFS) to STA for publication in *International Financial Statistics (IFS)* or for electronic dissemination. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Économie*, issued twice a year by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Planning. More recent sectoral developments are described in detail in the *Tableau de Bord de l'Économie*, issued quarterly by the General Directorate for the Economy (DGE) of the Ministry of Economy, Finance, Budget, and Privatization.
3. Publication of the statistical appendix to Article IV consultation reports has been discontinued since, with Fund technical assistance, Gabon now posts similar data on the internet ([www.stat-gabon.ga/Home/Index1.htm](http://www.stat-gabon.ga/Home/Index1.htm)).

#### National accounts

4. Central AFRITAC (AFC) is working with authorities to incorporate the *System of National Accounts 1993* methodological recommendations, particularly in the valuation of sectoral value added at basic prices. Coverage of developments in oil and other key export sectors is based on a range of indicators that may not fully capture the profits these sectors generate. Despite recent improvements in collecting and processing oil sector statistics, there are still significant inconsistencies between national accounts and balance of payments statistics. In addition, more frequent household surveys are required to improve the quality and quantity of data on income distribution and consumption. Two 2008 AFC missions have provided technical assistance on the treatment of statistics and fiscal statements (SFS), and the implementation of Access software for the SFS compilation. Efforts are needed to establish a more consistent database. The processing of the SFS of 2007 for the compilation of the national accounts of the same year is planned to be finalized by end-2008.

#### Employment and unemployment

5. Data on unemployment and the total labor force are not systematically available.

#### Prices

6. In 2007 the authorities began publishing an improved CPI index, which covers the same basket of goods and services as the CEMAC Harmonized Consumer Price Index (HCPI) and uses a weighting scheme derived from Gabon's 2005 household expenditure survey. However, it only covers the capital city of Libreville.

### **Government finance statistics**

7. A major shortcoming is limited institutional coverage, as social security operations are not included in the statement of operations of central or general government. Audited accounts of oil sector operations are generally available annually and sometimes quarterly, but with a significant reporting lag. Other needed improvements relate, inter alia, to the statistical treatment of oil company tax advances, the recording in the budget accounts of government-owned capital formation financed by oil companies, and the recording of government domestic payment arrears.

8. While there is a fairly good database on the operations of the largest enterprises, information is communicated to the staff only ad hoc, usually during Fund missions. At present, the data cover enterprises in which government equity participation is at least 25 percent.

### **Monetary statistics**

9. The Bank of Central African States (BEAC) regularly reports in electronic form monthly monetary, interest rate, and exchange rate statistics for Gabon and other CEMAC member countries for publication in *IFS*, but delays occur sometimes in the submission of data. Institutional coverage of the monetary statistics for Gabon is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries. Gabon, however, imports far fewer CFA bank notes than the other CEMAC countries. About 97 percent of notes circulating in Gabon are nationally issued; the rest are from the Republic of Congo, Cameroon, and Equatorial Guinea. Gabon exports about 18 percent of its notes, most of which go to Cameroon (12 percent) and to the Republic of Congo (4 percent).

10. The BEAC started in mid-2007 a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. The BEAC has recently submitted test monetary data for Gabon using the standardized report forms for the period January 2000–December 2007.

### **External public debt**

11. There are comprehensive data on the stock of external public debt and its composition, as well as detailed projections on debt service due. Data are provided, usually to Fund missions, by the General Directorate of Public Debt and Accounting (*Direction générale de la comptabilité publique*) of the Ministry of Economy, Finance, Budget, and Privatization.

### **Balance of payments and trade statistics**

12. Balance of payments statistics are compiled by the national directorate of the BEAC and the estimates are validated by staff from BEAC headquarters. Data are disseminated with considerable delay, and the latest available official statistics are for 2005. Since 1995

compilation of balance of payments statistics has conformed to the *Balance of Payments Manual, 5<sup>th</sup> edition*. Source data are collected through (i) surveys of enterprises by the central bank (the main source of data); (ii) reports from banks and the postal administration on foreign exchange transactions of other enterprises, retailers, and private individuals; and (iii) BEAC reports on banknote movements between Gabon and other BEAC countries. External trade data are mostly based on estimates, which are not cross-checked with customs data. Data on other items of the current account are not very reliable or accurate due to low response rates to enterprise surveys, despite partial correction through adjustments. Foreign direct investment in the financial account is likely to be underestimated owing to insufficient detail in the oil sector survey. The magnitude and detailed breakdown of private capital flows, particularly short term, suffer because data are not comprehensive.

**Gabon: Table of Common Indicators Required for Surveillance**  
(As of January 31, 2009)

|   | Date of latest observation | Date received | Frequency of data <sup>7</sup> | Frequency of reporting <sup>7</sup> | Frequency of publication <sup>7</sup> |
|---|----------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------------|
| Exchange Rates  | Jan. 2009                  | Jan. 2009     | D                              | D                                   | D                                     |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>             | Oct. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Reserve/Base Money  | Oct. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Broad Money   | Oct. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Central Bank Balance Sheet  | Oct. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Consolidated Balance Sheet of the Banking System  | Oct. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Interest Rates <sup>2</sup>   | Jan. 2009                  | Jan. 2009     | M                              | M                                   | M                                     |
| Consumer Price Index  | Nov. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup> | Sep. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government              | Sep. 2008                  | Dec. 2008     | M                              | M                                   | M                                     |
| Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>                          | Dec. 2007                  | Mar. 2008     | Q                              | Q                                   | I                                     |
| External Current Account Balance  | Dec. 2005                  | Sep. 2006     | A                              | I                                   | A                                     |
| Exports and Imports of Goods and Services   | Dec. 2005                  | Sep. 2006     | M                              | M                                   | I                                     |
| GDP/GNP   | 2006                       | Oct. 2007     | A                              | I                                   | A                                     |
| Gross External Debt   | Dec. 2007                  | Mar. 2008     | Q                              | I                                   | I                                     |
| International Investment Position <sup>6</sup>  | N/A                        | N/A           | N/A                            | N/A                                 | N/A                                   |

<sup>1</sup>Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

<sup>2</sup>Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup>Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup>The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup>Including currency and maturity composition.

<sup>6</sup>Includes external gross financial asset and liability positions vis-à-vis nonresidents.

<sup>7</sup>Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).



Press Release No.09/59  
FOR IMMEDIATE RELEASE  
March 4, 2009

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes the Second and Third Reviews under Gabon's Stand-By Arrangement**

The Executive Board of the International Monetary Fund (IMF) today completed the second and third reviews of Gabon's economic performance under the three-year Stand-by Arrangement. The approval enables Gabon to purchase immediately a cumulative amount equivalent to SDR 40 million from the IMF (about US\$58.9 million). However, Gabon has not made any drawings under the arrangement so far, and the authorities have indicated that they will continue to treat it as precautionary.

The Executive Board also granted waivers for the nonobservance of the performance criteria related to the imposition of restrictions on payments and transfers for current international transactions and to the adjustment of petroleum products. The Executive Board also approved the modification of the performance criterion related to the implementation of the fuel price adjustment formula.

The Stand-By Arrangement for Gabon in an amount equivalent to (about US\$113.6 million) was approved on May 7, 2007 to support the country's economic program (See [Press Release No 07/88](#)).

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

“Gabon achieved robust economic growth in the first half of 2008, underpinned by favorable international oil and commodity markets. Since then, growth has slowed substantially, as Gabon's three main industries—oil, timber, and manganese—have been hard hit by the global downturn. As a result, the short-term outlook has deteriorated markedly. It will be important to reduce the non-oil fiscal deficit over time in order to mitigate risks to macroeconomic stability and to prepare Gabon's transition to the post-oil era. The global crisis has also underscored the need to diversify the economy. The authorities have initiated welcome steps to strengthen program implementation, including actions to reduce the non-oil fiscal deficit.

“The 2009 budget is consistent with the authorities' objective to bring the fiscal deficit to a sustainable level, albeit at a more gradual pace than previously anticipated in light of the weakening foreign demand. A tightening of current spending will create fiscal space for

better targeted social spending and priority projects. The authorities have liberalized the prices of two oil products and adopted an automatic fuel price adjustment mechanism for all other oil products, effective January 2009, to ensure the reduction of oil product subsidies. In addition, the authorities have committed to revising the budget as necessary should revenues decline more than currently anticipated.

“Good progress has been made on public financial management reforms, particularly in the area of oil revenue administration. Efforts are also ongoing to develop sectoral medium term expenditure plans, reflecting Poverty Reduction Strategy Paper priorities; to raise the quality and efficiency of public spending; to improve budget execution and coverage; and to reduce tax exemptions.

“Gabon’s external position improved substantially following the prepayment, at a discount, of Paris Club debt in January 2008. The authorities recognize the need to develop a comprehensive debt management strategy and follow a prudent borrowing policy to keep external debt at a sustainable level.

“The authorities see further structural reforms as essential to improving the business climate, in order to encourage private sector development and to diversify the economy. The creation of the National Diversification Commission and the accelerated spending on infrastructure are steps in the right direction. It will also be important to pursue plans to promote an enabling environment for the financial sector development, to strengthen governance and increase transparency, and to take measures for ensuring the commercial viability of the oil refinery, SOGARA,” Mr. Portugal said.

## **Statement by Laurean Rutayisire, Executive Director for Gabon**

**March 4, 2009**

On behalf of my Gabonese authorities, I would like to express my appreciation to Management and staff for their continued support and useful advice to Gabon.

My authorities experienced some difficulties in the program implementation, mainly due to food and fuel crises, which forced them to take measures to alleviate the effects on the most vulnerable and preserve social peace. In particular, they had to postpone a new adjustment of fuel prices following that of March 2007 and the implementation of the automatic fuel price-setting mechanism (two structural performance criteria for the period under review). As a result, they could not complete the second review as scheduled. Nevertheless, over the last few months, they have taken several corrective actions, including the implementation of the fuel-price related measures, to bring the program back on track and have prepared contingent plans in the event that international developments differ significantly from the assumptions of the macroeconomic framework for 2009. Given the strength of these actions and the program for 2009, as described in the Letter of Intent, my authorities are requesting waivers for nonobservance of performance criteria and are also asking for the combined completion of the second and third program review.

### **I – Recent developments**

After a robust performance in the first half of 2008, **economic activity** slowed down in the latter months of that year, due primarily to the weakening global economy, which has particularly affected the manganese and timber sectors. As a result, non-oil real GDP growth is estimated at 3.0 percent in 2008, against 6.2 percent in 2007. The oil production also declined by 1.2 percent, mainly due to a two-week long oil workers' strike and delays in bringing new fields into production. My authorities continued to keep the inflation at lower single digits of 5.6 percent at end-2008, although still high by CEMAC regional standard. Gabon's external position has been strong and the BOP remains in surplus.

**Fiscal consolidation** continued in 2008. Non-oil primary deficit (NOPD) declined from 18.0 percent in 2007 to 13.8 percent in 2008. As indicated above, my authorities decided in December 2008 to take advantage of the current low international oil prices to implement the fuel price-related measures envisaged in the program. Therefore, prices of gasoline and diesel are being adjusted monthly since January 2009 while the price of kerosene has been revised upward in February 2009. Furthermore, since March 1, the price of butane has been increased. Those measures were accompanied with extensive communication with the public, in order to ensure that it understands both the mechanism and its rationale. As a result, fuel subsidies are projected to decline by CFAF 60 billion in 2009, an amount equivalent to

almost 2 percent of non-oil GDP. Starting next year, my authorities will seek to eliminate the remaining subsidies and replace them by measures better-targeted to the most vulnerable.

My authorities made further strides with respect to **public financial management and budget transparency**. In particular, a global PRSP-based medium-term expenditure framework (MTEF) was prepared and applied to improve the preparation of the current and capital budgets. The oil revenue model is operational since February 2008 and has become an important tool in oil revenue management; and the 2006 EITI report was published in March 2008. In addition, the list of projects selected for the 2008 and 2009 Independence Day Celebrations have been published in July 2008 and January 2009 respectively. All related expenditures have been subject to regular budgetary procedures since 2007.

My authorities also prepared an action plan specifying the costs, services levels and sources of financing of the health insurance and social security system. However, my authorities inadvertently introduced an **exchange restriction** when they imposed a tax on non-bank money transfers as a source of financing for the system. My authorities will amend the tax in the context of the forthcoming revision of the budget to eliminate this exchange restriction, and will consult with Fund staff regarding this tax amendment.

In the **monetary and financial sectors**, monetary policy, which is conducted at the regional level by the BEAC, has been relaxed, as the central bank lowered its interest rates on its credit and deposit facilities in December 2008, in response to the international financial crisis. While the FSAP indicated that the financial sector in Gabon is generally profitable and stable, it also identified structural weaknesses and risks in Gabon's financial sector, including undiversified bank portfolios and underdevelopment of nonbank financial institutions. My authorities are continuing to implement the recommendations of the FSAP.

On **debt issues**, following the successful bond issuances in December 2007 and January 2008, my authorities prepared a draft comprehensive government asset and liability management strategy, in order to improve debt management. In addition, the government established in October 2008 a national committee on public debt (CNEP), which, among others, is charged with monitoring the assumption by the government of debts of public enterprises undergoing privatization or restructuring, and ensuring the coordination of related repayment schedules with budget objectives.

Recognizing that accelerated and sustained growth in non-oil GDP is critical to Gabon's long-term economic progress, the government has been accelerating its program to build the country's infrastructure and promote **economic diversification**. A new National Diversification Commission has been created to oversee this program.

The **restructuring of public enterprises** is continuing. In particular, the commission appointed to solve the problems pertaining to the concession with *Société d'électricité et*

*d'eau du Gabon* (SEEG) is continuing its work. The final audit report of SOGARA, the oil refinery, was completed in August 2008. Since then, the government has been working with the other shareholders of SOGARA to develop a concrete program to restructure the company, enhance its efficiency and eliminate production subsidies over time. That said, recognizing that the privatization program, while successful in many respects, has not contributed meaningfully to increase competition and efficiency in the Gabonese economy, my authorities will launch a comprehensive review of their privatization experience, seeking ways to enhance competition in the local market place.

## **II – Policies for 2009**

My authorities are mindful of the urgent need to press ahead with the implementation of a strong economic program to make the economy less dependent on oil, ensure budget and debt sustainability, maintain high non-oil GDP growth, and reduce poverty. However, the global financial crisis and resulting economic slowdown have severely impacted Gabon's economic prospects for 2009, with its three main industries –oil, manganese, and lumber– all experiencing either sharply falling prices or sharply declining output, or both. The macroeconomic framework for 2009 has been revised to take account of these developments. In particular, growth in oil production was revised downward from its previous projection of 11.9 percent to 7.8 percent, to reflect likely delays in plans for bringing marginal oil fields on stream and boosting productivity in mature fields. Real non-oil GDP growth is projected to decelerate further to 2.3 percent, with manganese production expected to decline by 13 percent, and timber production by over 14 percent. Annual average inflation is projected to decline to 3.5 percent.

My authorities remain committed to **fiscal consolidation** with the objective of achieving a non-oil primary deficit of 6 percent by 2011, as agreed in the arrangement. To this effect, the 2009 budget aims to bring the NOPD from 13.8 percent of non-oil GDP in 2008 to 11.8 percent of non-oil GDP. The reduction in the NOPD will be achieved through continued containment of expenditures on goods and services, and subsidies, while maintaining expenditures aimed at helping the most vulnerable to deal with high costs of food and rising energy prices. My authorities have begun to prepare contingency plans to adjust the budget downward, through expenditures cuts in the event that the international developments deteriorate significantly relative to budget assumptions.

My authorities are aware that achieving the medium-term objectives of the SBA program will require continued progress in the **public financial management reform**. In this regard, they will continue to improve budget preparation, execution, reporting and transparency, strengthen revenue administration and raise the quality of spending, as explained in the Letter of Intent. To this end, they will take into account the recommendations of the September 2008 Fund TA mission on revenue and customs administration reforms and those of the Public Expenditure Management and Financial Accountability Review (PEMFAR) to

improve the efficiency of public spending. In particular, a medium-term expenditure framework (MTEF), including consistent sectoral programs, will be developed by June 2009 and used to prepare the 2010 budget. My authorities also intend to select, by end-April 2009, an external auditor to audit all government expenditures on the 2006, 2007, and 2008 Independence Day Celebrations.

My authorities will pursue their efforts to promote an enabling environment for the development of the **financial sector**. They will continue to support the regional supervisory authorities in their efforts to ensure that banks comply with prudential ratios. They will also press ahead with the implementation of a regional Treasury bond market. In this context, my authorities will work with other CEMAC countries to clarify the tax and prudential treatment of government bonds. Moreover, they will take a proactive role to advance all other issues of regional interest such as trade liberalization and central bank operations.

As regards **transparency in the oil sector**, efforts will also continue to reduce the discrepancies between different accounts of oil revenue. The 2007 EITI report is expected to be published by June 2009 and the 2008 report by December 2009. A reconciliation of the various accounts of oil revenue (TOFE, EITI, Model estimates) will also be provided at that time.

My authorities recognize the importance of strengthening national **statistics**, and have launched a comprehensive effort to accomplish that. In particular, they are in the process of drafting a statistics law, and are committed to having the law adopted by the government and submitted to parliament before the end of 2009.

### **III. Conclusion**

My authorities remain strongly committed to their program objectives. They have taken important measures to correct difficulties experienced during the program implementation in the midst of the crises and to keep the program on track going forward. On the basis of these measures, my authorities are requesting waivers for nonobservance of performance criteria and are also asking for the combined completion of the second and third program review. I will appreciate Directors support to my authorities' requests.